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HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 35 - 56

THURSDAY, JANUARY 12, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Messrs. Frank O'Hearn; Melvin A. Rowat; and Harry H. Hallatt.

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STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs

Addison,
Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Chrétien,
Clermont,
Coates,
Comtois,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Lamontagne,
Latulippe,
Leboe,
Lind,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

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MINUTES OF PROCEEDINGS

THURSDAY, January 12, 1967.
(71)

The Standing Committee on Finance, Trade and Economic Affairs, met at 11:05 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Leboe, Lind, McLean (*Charlotte*), More (*Regina City*), Wahn—(13)

Also present: Messrs. Laprise and Thompson.

In attendance: Mr. Frank O'Hearn, Scarborough, Ont.; Mr. Melvin A. Rowat, Elmvale, Ont.; Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation.

The Chairman introduced the first witness, Mr. O'Hearn, who summarized his brief. In accordance with the resolution passed at the meeting of October 13, 1966, Mr. O'Hearn's brief is attached as *Appendix FF*.

Mr. O'Hearn also filed with the Committee the additional exhibits referring to his brief.

Ordered:—That copies of Mr. O'Hearn's additional exhibits be distributed to members of the Committee.

On behalf of the Committee, the Chairman thanked the witness, who was then permitted to withdraw.

Mr. Rowat was called, summarized his brief and was questioned. In accordance with the resolution passed at the meeting of October 13, 1966, Mr. Rowat's brief is attached as *Appendix GG*.

The questioning continuing, at 12:55 p.m. the Committee adjourned until 3:45 p.m. this day.

AFTERNOON SITTING
(72)

The Committee resumed at 3:55 p.m., the Vice-Chairman, Mr. Laflamme, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gilbert, Irvine, Laflamme, Lambert, Leboe, Lind, McLean (*Charlotte*), More (*Regina City*)—(10)

Also present: Messrs. Laprise and Thompson.

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In attendance: Mr. Rowat and Miss Prentis; and also Messrs. Harry H. Hallatt, Scarborough, Ont. and Denis Baribeau, research assistant.

Questioning of Mr. Rowat was concluded, whereupon he was thanked by the Vice-Chairman, and withdrew.

Mr. Hallatt was called, summarized his brief and was questioned. In accordance with the resolution passed at the meeting of October 13, 1966, Mr. Hallatt's brief is attached as *Appendix HH.*

The questioning having been concluded, the Vice-Chairman thanked the witness, who then withdrew.

At 5:05 p.m. the Committee adjourned until 11:00 a.m., Tuesday, January 17, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

THURSDAY January 12, 1967.

The CHAIRMAN: Gentlemen, I see a quorum. The first witness is Mr. Frank O'Hearn of Scarborough, Ontario. I understand that Mr. O'Hearn has a background in auditing and stock-broking. In recent years he has been the head of his own private research bureau. I am going to ask Mr. O'Hearn to present his brief. I remind him of our procedure that we do not ask witnesses to read their briefs in their entirety; instead we ask them to summarize their briefs in approximately 10 or 15 minutes so that we can have some time for questioning. Bearing that in mind, Mr. O'Hearn, I would ask you to present your brief, which, as you know, already has been distributed to the members for their consideration.

Mr. Frank O'HEARN (*Scarborough, Ontario*): Mr. Chairman, and members of the Committee, I first of all wish to thank you for granting me this permission to appear before you in support of my brief. I had prepared a brief back in 1954 for presentation to the old Banking and Commerce Committee, but they never gave me a hearing.

My purpose in appearing before you today is to support the brief that I have submitted for your consideration. I propose also to submit a definition of "banking", which would be suitable for inclusion in the proposed new Bank Act. I will submit a suitable definition of "money" too. I will tell you just how I propose to have the deficit in the government's balance sheet switched over to the banking sector of our economy, from which it originally came. I would like to elaborate a little on this proposal. It seems obvious to me that if a deficit is good enough for the government of Canada to operate from, that same deficit should be good enough for its own banks, the Bank of Canada, to operate from. Hence I propose that the government's deficit be forthwith switched over to the shoulders of the Bank of Canada. This seems particularly desirable in view of the fact that by making this switch we can enrich ourselves to a total of over $18 billion, which is equivalent to nearly $1,000 for each man, woman, and child in Canada. This is why I state in my brief summary that the government right now could properly debit its bankers with this amount which is wrongly over-paid them, and get credit notes for this total from them accordingly.

Furthermore, this government deficit could be switched over immediately, and its benefits to the entire nation could be felt immediately too. For instance, right at this point this Committee could conclude its study of the Bank Act revisions. To do this, all that is needed is for some members, right now, to propose that the government's banking legislation be passed by the House of Commons with but one major amendment. That amendment would be for parliament to order the government's Department of Finance to switch the governmental deficit over to the Bank of Canada. If some other members of this

Committee would then second such a motion, the Committee would, I feel, endorse it unanimously. The Committee could then report its recommendation to the House right today, and suggest that the bills be given third reading, say, tomorrow. I feel sure that every member of parliament would vote for the amendment suggested by the Committee; and would unanimously endorse the switching of the government's deficit over to the Bank of Canada, or even over to the chartered banks if such alternatives seem more desirable. Either switch would suffice.

In doing this, the government could on the following day, that is, say on the day after tomorrow, start spending its new found money in the public interest. Just to impress the committee with how serious I am in making this proposal I would submit that I am entitled to at least a 5 per cent cut in the money salvaged or generated through my formula. Now let me see: 5 per cent on $18 billion would be $900 million. You had better make it a billion dollars flat. It would be cheap at a billion dollars. Some people have offered me 50 per cent if I could get this money for them. And when the government starts spending its $17 billion on say, the day after tomorrow, everybody in this room could then join with me in spending my billion dollars. That would be something. Maybe we could charter a luxury liner and a few jet planes and take a few months holidays travelling around the world in luxury telling every nation just how they could enrich themselves by merely switching their government deficits over to the central banks or to the commercial banks, if preferred.

When we bail the governments out they will be able to do lots of things for their people that they cannot do now while they are in the hole. Now although loading the government deficits onto the bank will admittedly double their liabilities there is nothing to fear about that because I propose that we immediately bail the banks out too. My formula provides a means for the banks to double their assets too so as to offset the increased liabilities to be loaded onto them. My formula, in other words, calls for the banks to generate cash capital and cash profits as well as debts. Hence, my aim is to have this committee take the necessary steps to bail out our government and our banks too.

If a sudden emergency were to break out today this committee and Parliament could act very quickly indeed. They have done it on occasion before this. In order to demonstrate therefore that our democratic institutions can act just as quickly in times of peace as they do in times of war it would be fitting for this committee to act right now, pronto, in promoting welfare and enriching our people. This committee could take an unprecedented action which would spread right across the entire world; it could initiate a world-wide movement that would put the entire human race on a sound, solvent and prosperous position and provide benefits that could be had in no other way. It would be better to do this right now of your own free will than to plod along until April 1st and then maybe have to do it anyway to justify your study of the banking legislation. You have fate right in your hands and I sincerely hope you will grasp it while you have a chance to do so. I suggest the first duty of this committee is to bail our government out of the deficit hole it has been put in by the finance department and banking officials.

I would like everybody in this room to forthwith declare himself in favour of this proposal. Is there any committee member, for instance, willing to propose such a motion? We have to declare ourselves on it. Now, if no committee member is prepared to sponsor such a motion, or if Mr. Chairman does not see fit to call for such a motion, then perhaps one of the chartered banks may see fit to take the initiative. Is there a chartered bank official executive present who would care to take a stand here in this regard and tell the committee that he will have his bank credit the Receiver General right away with the sum of, say, $1 billion to bail the government out, and then offset the credit with a debit against the Bank of Canada, all for the purpose of initiating a proper accounting of the amount due the government by his bank and the amount due his bank by the Bank of Canada? This is a wonderful opportunity for the chartered banks. Would any chartered bank official declare himself on this?

If not even one chartered bank is willing to declare itself then perhaps the Bank of Canada officials would do so. There is an official of the Bank of Canada present. I was wondering if he is willing to tell the committee that he will have to central bank credit the Receiver General with, say, $1 billion as payment on account of its liability to the government and then offset its increased liability by switching a billion dollars from its new currency stockpile over to its cash cages to be reported as a cash asset? I wonder if the official of the Bank of Canada would do that?

The CHAIRMAN: Mr. O'Hearn, I think we should make clear, at least for the record, that at this stage we are here to hear from you and to give an opportunity for others to present their views either along the lines you suggest or otherwise. Will you proceed?

Mr. O'HEARN: Well, the only comment I make at this time on that is that if the committee will not act, the chartered banks and the central bank will not act then I feel that this committee is liable, like the 1954 inquiry, to end up by permitting the bank charters to be railroaded once again through Parliament, leaving us without a proper and suitable Bank Act to regulate our money and banking transactions. I saw that in 1954; I spent three months down here listening to that. If that is the case and the Bank Act is railroaded through again, I would have no recourse other than to charge that they are all intent on keeping the government and the people of Canada in their present insolvent deficit condition. I would have to charge too that they are all mutually acting against the public interest and are taking sides against the people of Canada. To me the issue is clearly marked between the officials and the people, and the battle must proceed. I here caution everybody that there are evil forces operating throughout the world that would rather start dropping atomic bombs before they let go their grasp on us. That is why we should take the initiative now before they can stop us and present them with a fait accompli, as it were; let them know that their jig is up and in consequence they cannot do anything about it as we have already taken action.

I will proceed now to tell you just how I propose to have our banks put in a sound and solvent condition. I will also tell you how I propose to have the currency now being mutilated and destroyed day by day by the bank converted into an earning asset. I will tell you of my proposal to get a better kind of money

for our business requirements and settlements and a better kind of banking too. Finally, I propose to tell you further just how my formula will enrich the government, the banks and the Canadian people to an equivalent of $1,000 each, which is $18 billion in all. I will read you my summary.

This is addressed to the Chairman and members of the committee. I feel it is unnecessary for me in this summary of my brief to demonstrate further the dire need of reforming our monetary banking and public financing methods and practices. I feel that this committee already have in mind that some basic reforms in our banking practices must be initiated. Hence I will summarize the purpose of my brief, which is many sided, as follows.

One purpose, for instance, is to get our public economy switched over from its present deficit basis to a capital basis. Another purpose is to provide ourselves with the capital which everybody readily admits we need so badly. Another purpose is to enrich our people and give them a stake in our economy which they now lack but which they are entitled to and which they need so badly to give each of them a personal interest in making certain that our economy will work to the benefit of everybody. Still another purpose is to salvage and share with everybody alike all the money which I claim has been illegally extorted from us and destroyed at our expense. A further purpose is to effect a substantial reduction in taxation so as to bring about a reduction in living costs, production costs, prices and so on. This will make it possible to end our prevailing wage and price spirals, our labour and management controversies, in the hope we may avert further economic and financial panics and wars along with their terrible consequences in human suffering, expense and frustration.

In brief, my purpose is to bail out government and banks for they are deep in the hole right now. I feel all these objectives will appeal to Parliament and to the people of Canada as being worthy and feasible. My hope and expectation is that Parliament will feel compelled to make use of my copyrighted formula and to pay me a fair price in exchange. This committee and Parliament may be assured that I would not even think of making the charges I have made were I not in a position to submit a formula and technique by means of which the flaws in policies may be ended and for once and all removed from our public and private economy. Hence my formula is found to be beneficial to one and all. Everybody has something to gain by implementing it and nothing to lose.

Here is a summary of how I propose that the new Bank Act legislation be enacted so as to put our government, our banks and our people in a sound and solvent capital position.

1. I propose that the new Bank Act provide us with a better kind of central bank. I propose the new act should change the name of our central bank to the Reserve Bank of Canada and that it should require the improved government bank to accumulate, hold and safeguard our national cash savings and reserves.

2. I propose that the new act should require the reserve bank to henceforth carry its own notes as cash reserves or deposit assets when such notes have been previously issued and properly collected back by it.

3. I propose that the new act should order that all new capital gained from currency transactions be reported and paid to the Receiver General of Canada as intended by our national charter.

4. I propose that the act should order that the new reserve bank should provide us with a dollar good enough for the reserve bank itself to hold and report amongst its other assets.

5. I propose a better kind of public financing, one by means of which the national government gets the profits accruing from the issue of new Canadian money, whether issued direct or through the remodelled reserve Bank of Canada.

6. I call for a better kind of capitalist economy, one that is based on a capital equity basis instead of on a cash deficit basis as now prevails.

7. I propose that Parliament insists on getting us a better kind of money for our international trade transactions and so on, an international dollar suitable for the entire world, one which is badly needed to free international trade and settlements from the shackles now plaguing us, or a suitable alternative for international exchange—one which is so badly needed to free us from existing threats to ourselves and all other nations.

8. The government, for instance, could right now debit its bankers with the amounts it wrongly overpaid them. It could get credit notes from them accordingly.

9. We could, for instance, profitably convert our discarded currency to an earnings asset. Instead of mutilating, burning up or otherwise destroying our costly Canadian currency as we now do, we could, with the necessary co-operation, readily arrange to exchange it for foreign currencies, accepting in exchange their currencies which they too have hitherto mutilated and destroyed in a similar way at the public expense. The banks could then tender credit balances for free checking to their governments against their added holdings of foreign currencies.

This formula would be particularly beneficial inasmuch as the funds they get in exchange would be treasured by the different nations, giving them a clear 100 per cent capital profit for such exchanges and increasing their foreign exchange holdings accordingly. In this way holdings of foreign exchange currencies by ourselves and foreign nations would be enlarged for a common benefit, providing suitable funds for settlements and expansion of international trade. This new technique also would avert the cash loss each nation now suffers when they destroy the currency they now discard instead of cashing in 100 per cent thereon as my formula proposes.

This formula for international exchange of currencies now unused and unclaimed could be carried out until each country had used up its costless currency and placed itself for the first time in a sound and solvent condition. Inasmuch as we in Canada mutilate, burn up and destroy some $4 million daily, it is clear that by following my formula we could turn this loss into a cash profit either in Canadian or foreign currencies. Moreover doing this would give a similar profit to the country we effect the proposed currency exchange with. I roughly estimate, lacking any definite figures, that the nations of the world presently lose over $100 million daily from their foolish destruction of their own currencies and that accordingly we could, with the necessary co-operation, turn this loss into a $200 million daily profit by implementing my copyrighted

formula. In this way billions of dollars could in the next year be beneficially made available for financing world trade to the benefit of everybody.

I fail to see how anybody can turn down such an attractive proposition. This committee and Parliament have a moral and legal obligation to end the phony dollar scheme which has long been imposed on us. By implementing my formula Parliament would be making an historical switch-over from deficit to capital financing, a change-over which is absolutely essential to our economic and political survival. We cannot go on indefinitely over-taxing and over-indebting ourselves with impunity, in lieu of restoring and using the cash we have been cheated out of. The many benefits which would accrue to the government and people of Canada, and to the governments and people of the entire world from the use of my formula, are quite obvious. The use of our new-found cash reserves as a permanent money base would place us all in a sound and solvent condition, and would ensure permanent prosperity and free us from our present uncertainties. The costless recovery of our secret, unclaimed bank balances, our missing cash savings, our uncashed money profits, obviously, would put an end to involuntary poverty, unemployment, and so on, and would provide ourselves with markets freed of restrictions and undue competitions. The costless tax reductions it would make possible, would reduce our production on living costs, and prices, and would stabilize our economy accordingly. Billions in new capital would be unleashed for investment purposes through my proposed costless repayment of the public debt. Or alternately, the new capital could be beneficially used to buy back a substantial portion of the Canadian resources now held by foreign interests. In this latter way each Canadian would get a share in business profits and our new-found equities would provide a basis for solving the age-long conflict between employers and employees.

My formula would enable us all to live in harmony with each other and with our neighbours in peace, prosperity, and security, despite the threats of atomic bombs and the other destructive elements now menacing our very existence. I therefore hope thata this Committee will advise parliament to order amended financial statements from the officials of the Bank of Canada, the Department of Finance, and the chartered banks, so as to show their true financial conditions. I hope thata parliament will order them to restore and turn over to the Receiver General, as needed, our hidden cash savings which we are now being deprived of. I further hope that parliament will take this action before renewing the expiring bank charters; otherwise, parliament and the banks, the government and banking officials will downgrade themselves accordingly, and leave themselves open to the wrath of the Canadian people. Finally, I hope that this Committee and parliament will act accordingly while the time and opportunity permits.

This completes the summary of my brief, but I would like to add a further word. Since I wrote the Chairman last November 16 and sent him a copy of this summary, which I have just read, I have had an opportunity to examine some of the testimony to the Committee already made by officials of the Department of Finance and the Bank of Canada, as well as the chartered banks. I advised the Chairman that I have come to Ottawa to give this Committee the first chance to enquire into the beneficial formula I have developed to enrich the Canadian people, the government, the bank and parliament, for the purpose of using this

formula as a basis to amend the government's proposed Bank Act and getting suitable compensation in return. I also advised the Chairman that I have not come to Ottawa to publicly discredit any person or persons in particular although I have already charged in my brief that they have been handling our banking and money affairs improperly and illegally. However, after examining the testimony already made to the Committee by the officials of the Department of Finance and the banks, I feel compelled, in the public interest, to further expose the falsity of that evidence in many respects, and to expose the efforts of those officials to deceive, misinform and confuse this Committee, and through it, the parliament and people of Canada. I could not, conscientiously, remain quiet under such intolerable circumstances. Accordingly, I have prepared a critical appraisal of the testimony of the witnesses already heard by this Committee, insofar as it has come to my attention. Here is a summary of this critical appraisal.

The CHAIRMAN: I wonder, Mr. O'Hearn—and I am in the hands of the Committee in this regard—whether it would not perhaps be more suitable, or equally suitable if you let us have a copy of this critique, which could be circulated amongst the members for their more detailed study, and if we devoted our time this morning to any questions the members may have on your own formula. What are the views of the members in this regard?

Mr. O'HEARN: In that respect I would like to file a schedule of these additional exhibits. Would that be all right?

The CHAIRMAN: All right.

Mr. O'HEARN: I will just read the titles over so that you will know what the contents are; they are only short exhibits. No. 1 is my definition of banking; No. 2 is my definition of money; No. 3's title is "bailing out the banks"; No. 4 is a bulletin exposing the shortage in banking assets; No. 5 is my money circulation chart and it was suggested that some might want to have a chalk talk on that chart on the blackboard, which I will do that too, if you wish; No. 6 is titled "which comes first", and that is a question that has been bothering everybody; No. 7 is resettling bank debts and the present method; No. 8 is a bulletin on inflation and deflation; No. 9 is a bulletin explaining the real effects of Bank of Canada operation on chartered banks; No. 10 is some of the sordid details of my critical appraisal of the testimony already given to the committee. Shall I file those with you?

The CHAIRMAN: Yes.

Mr. O'HEARN: You do not want me to read the appraisal?

The CHAIRMAN: Well, I am in the hands of the Committee in this regard. Is it the wish of the Committee that this be circulated for further detailed study, and that we limit ourselves this morning to any consideration we may want to give at this time to the specific proposals of Mr. O'Hearn.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Do we agree on that approach?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, Mr. O'Hearn, you have presented a very interesting summary of your views and proposals, and have filed an additional memoran-

dum with us for our consideration. Therefore, at this time it would be appropriate for me to call upon the members for any questions or comments they may have with respect to the views you have put forward in your summary and, of course, in the larger brief you were kind enough to file with us some time ago which, as I said, has already been distributed for the consideration of the Committee.

Mr. O'HEARN: I have a one page, five minute summary of my critical appraisal of the testimony already given that I feel I should put in; it would only take five minutes.

The CHAIRMAN: Well, first, I think we should see whether the members have any questions or comments at this time on the summary and on the wider brief.

There appear to be no questions or comments at this time, and perhaps the Committee therefore, as this further critique will only take some five minutes, may want to afford Mr. O'Hearn the opportunity of presenting it. Do you have that available at this time, Mr. O'Hearn?

Mr. O'HEARN: Yes. This is just a summary of what you have in there.

The CHAIRMAN: I see.

Mr. O'HEARN: First, I would like particularly to draw the attention of the Committee to the similarity of the testimony already heard from the banking and Department of Finance officials. They all take the same stand on the various questions raised by the Committee members, and they all give the same unsatisfactory answers. This is because they have all been tarnished by the same brush. They have all been brainwashed by the same propaganda, the government, the politicians, the London School of Economics, the teachers of banking, economic, and political economy classes in the universities, the misguided press, and the prevailing financial policies. Hence, they have all misinformed the Committee and confused the members. They do this, obviously, for their own subversive purposes, to keep themselves in their jobs and in command of our financial and economic affairs. This applies, particularly, to the Minister of Finance and his Deputy, to the Governor of the Bank of Canada and his deputies, to the Inspector General of Banks, the Auditor General, the Comptroller of the Treasury, to the executives of the chartered banks and their lieutenants, to the shareholders' auditors and the Canadian Bankers' Association and their officials. From the foregoing, it is clear that those officials either do not really understand the nature of their own operations and transactions, or they are deliberately subverting our financial system. It is clear too that this is one of the main reasons that they have not been able to operate our financial system in the proper manner for the benefit of the government and people of Canada. But this is obviously clear because of the fact that these officials who are supposed to be experts in their field, and supposed to operate our financial system for our benefit, are nevertheless quite unable or refuse to properly define banking and the banking business they are conducting; neither can they properly define money or calculate the supply of money generated from their operation. Nor have they been able to distinguish between deposits as assets and deposits as liabilities. They have, consequently, been unable to translate their operations and transactions into sound bookkeeping and accounting reports and statements.

They pervert our accounting system so that they make it appear that our national government has an accumulated deficit of over $15 billion instead of a capital surplus of over $3 billion. They make it appear that our public economy is in a deficit position instead of reporting an $18 billion deficit in the banking accounts. Hence, the balance sheets put out by the Minister of Finance, as prepared by his deputy, are absolutely false and incorrect, and they fail to show the true financial condition of our national government. Likewise, the balance sheets put out by the banks and passed by the Deputy Minister of Finance are similarly false and incorrect; and they too, fail to show the true financial condition that is called for by the existing Bank Act and other statutes governing their operations. By the same token, the balance sheet and financial statements put out by the Governor of the Bank of Canada are likewise false and incorrect and fail to show the bank's true financial condition.

Now, I have filed what I call the sordid details as an exhibit to the central office.

The CHAIRMAN: Thank you, Mr. O'Hearn. Are there any further questions or comments at this time? If not, Mr. O'Hearn, we thank you for appearing before us and giving us the opportunity to hear your views. I am sure the members of the Committee will want to give them every appropriate and serious consideration.

Mr. O'HEARN: How about any enquiries they may have in the future? Do you want me to come back?

The CHAIRMAN: Well, that will be up to the Committee to decide whether or not they wish to recall you. In addition to that, of course, it is open to any member of the Committee to communicate with you privately.

Mr. O'HEARN: Yes.

The CHAIRMAN: I thank you very much, Mr. O'Hearn.

Mr. O'HEARN: Thank you for your hearing.

The CHAIRMAN: Now I will call upon Mr. Melvin Rowat.

Mr. O'HEARN: Could I speak about Mr. Melvin Rowat, in anticipation?

The CHAIRMAN: No, I am afraid not, sir. You have had your opportunity to present your views and this is the basic reason that you are here today.

Mr. O'HEARN: If he, in his statement, uses any of my stuff, I want him to give me credit for it.

The CHAIRMAN: Thank you very much, Mr. O'Hearn. Now, Mr. Rowat, would you step forward please, and proceed to present your brief?

Our next witness is Mr. Melvin Rowat. He tells me that he is in a managerial position in the business field. He has come before us to present his own views on our financial and banking situation and these are the result, he tells me, of a great deal of private study on his part. As we know, his brief was circulated to us for our consideration some days ago. I have asked him to present his brief to us at this time, bearing in mind our Committee rule that the presentation should be in the form of a summary of approximately 10 to 15 minutes, following which the members may put any questions or comments they may have. Mr. Rowat, would you proceed?

(*Translation*)

Mr. LAPRISE: Mr. Chairman, about the report or brief, could we have it translated? Could Mr. Rowat's brief be handed over so that we could have it completely translated?

The CHAIRMAN: Which report?

Mr. LAPRISE: Could Mr. Rowat's brief be handed over so that we could have it completely translated?

The CHAIRMAN: I am quite disappointed to see this. We received Mr. Rowat's brief long before his appearance here today, and it is my opinion that we should have a complete translation of these presentations to the Committee. As Chairman, I want to make a rather serious criticism to the Secretary of State Department for not having been provided a translation of these briefs in time. You know that any statement will appear in the minutes of this Committee in both official languages of the country, and as we have very complicated work on our hands, perhaps I might suggest to Mr. Laprise that we could perhaps continue with another discussion with Mr. Rowat now to allow the Committee to carry on its work. As you know, we have simultaneous interpretation here, and I think this will give all of us an opportunity to follow Mr. Rowat's ideas now.

Mr. LAPRISE: Will Mr. Rowat's brief not be tabled to appear in the proceedings of this Committee?

The CHAIRMAN: Yes, this is what will take place. Mr. Rowat.

(*English*)

Mr. Rowat would you proceed?

Mr. MELVIN A. ROWAT (*Elmvale, Ontario*): Mr. Chairman and honourable members of the Finance, Trade and Economic Affairs Committee, I consider it a privilege to have the opportunity of appearing before you to bring to you my findings on the present banking system and my proposals for bringing about what I call a scientific solution to Canada's economic problems.

The brief is in two parts: one part deals with the present system and the other with the proposed changes. As you will note, having read it, the latter part of this brief is a copy of the brief that I presented to the Royal Commission on Banking and Finance in 1962. Thus some of the particular figures in there are relative to 1962 and could be updated by using the Bank of Canada statistical summary as of today. In my summary of the brief—and I only realized yesterday I had to summarise it—I have made notes so that members can follow the different paragraphs and sections of my presentation.

I would suggest, first of all, that we turn to page 8 of the brief that I submitted to the Royal Commission because there is one statement I would like to read. I would like to mention at the outset that although some of my remarks may give you the opinion that it is the chartered banks that are at fault, it is not the chartered banks that are at fault. Their creation of money and/or bank credit is legal in Canada. It is the banking system adopted by the federal government which is wrong. Our present banking system can and should be changed.

I suggest to honourable members that I now start and add from the front of the section that is presented to the Royal Commission. As I say, I will

only touch upon some of the highlights in here. I should state before I commence that I am ready and willing to answer any particular questions that may arise. Members can either bring them up while I am speaking, Mr. Chairman, or they can wait until after I have made my summary. I am prepared to substantiate all my remarks, using the Bank of Canada's statistical summary, the Canadian Bank Act and other legal documents for this purpose.

With this as a sort of preamble I will now go to page 1 entitled "Canadian Banking—Present Imperfections Exposed and Workable Corrections Presented" go down to paragraph 5, in which I point out that the question that plagued my mind when I returned from the armed services was: "Where does our money come from and who or what determines its supply?" Now my interest in this was stimulated in 1954 when it was drawn to my attention that the banks cannot and do not lend their customers deposits. The verification for this can be found in the 1939 Banking and Commerce Report, and it was stated by Mr. Graham Towers on page 455 as follows:

> The banks cannot, of course, loan the money of their depositors. Now what the depositors do with these savings is something quite beyond the control of the banks.

This particular statement takes me to paragraph 9 on page 2. Then the question comes to mind: "How can the banks afford to pay us interest on our deposits which they do not lend?" This appeared to be paradoxical and raised another question: "What do the banks lend"?

It was out of *Quick Canadian Facts* that I got some of my information which is stated in paragraph 10. This particular statement can be verified in section 71(1) of the Canadian Bank Act as revised in 1954. This provision in the Bank Act enables the chartered banks to legally create our medium of exchange called "money", pay us interest on our deposits which they do not lend and operate at a consistent profit.

In reading these particular articles it came to mind that there is such a thing as a cash reserve. Then the situation was to define "cash reserve". Cash reserves are increased every time we deposit Bank of Canada notes, Canadian currency, with the chartered banks. I may say here, Mr. Chairman, that I am speaking of the chartered banking system and I do not refer to any individual bank in the system. I should also state that when I use the terminology "money supply" I use it in the over-all understanding as it has been laid down by the Bank of Canada. Cash reserves are also increased every time the Bank of Canada purchases securities on the open market—that is, add securities to their present portfolio.

Now the other part of that particular section which appeared in *Quick Canadian Facts* and was verified by the Bank Act is the deposit liabilities of the chartered banks—reading from paragraph 15—and these consist of our personal savings plus bank loans and/or purchase of securities by the chartered banks which appear as deposits in someone's account.

In paragraph 16 I state the following:

> To elaborate on the statement concerning cash reserves, let us consider the deposit of $100 in Canadian currency with the chartered banking system. It increases the bank's supply of Bank of Canada notes by $100

which constitutes a part of its cash reserves. Thus we learn that every deposit of Canadian currency in the chartered banking system increases their cash reserve by an equal amount.

Paragraph 17 deals with the manner in which the cash reserves for the chartered banks are increased when the Bank of Canada purchases an additional security on the open market. I do not believe, Mr. Chairman, that I need to go into detail on that section but I might read into the record the portion that is underlined in paragraph 17, which is as follows:

> The Bank of Canada is empowered to create money for the purchase of securities and there is no gold needed to back Canadian money.

We move over to paragraph 19, and again I will only read the portion which is underlined:

> The strange thing is the granting of a loan or the purchase of a security, by the banks,—

and I am referring more particularly here to the chartered banks.

> —which creates a deposit, never lowers any other deposits. Since our total money supply is made up of currency plus bank deposits; it necessarily follows that every bank loan, which creates a deposit, increases our total money supply. (More of this again will be mentioned later.)

I would like to read the quote that I have under paragraph 20:

> The deposit of $100 in Canadian currency, as a savings in the chartered banking system, increases their cash reserves by $100. This increase in cash reserves enables the chartered banks to create and loan an additional $1,150 which appears as a deposit in the borrower's account.

And further, I will read the underlined portion of paragraph 21:

> The $100 deposited is the 8 per cent cash reserve, required by law, of the $1,250 deposit liability incurred by the banks in this transaction.

And I would like to read the quote that is entered in paragraph 22:

> Supposing you deposited $100 in Canadian currency in the bank. This appears as a deposit in your account and is part of your assets. It is an asset of yours and a liability of the banks. Of course we all know banks cannot lend liabilities.

This is verification and proof that the banks do not lend their customers deposits which are liabilities.

In paragraph 23 I speak of a detailed study that I made of the Bank of Canada's statistical summary. Again, Mr. Chairman, these figures are based on 1960-61. I would draw to your attention that in view of the fact the chartered banks do not lend their customers deposits we all should be able to walk into the banks at one time and demand our personal savings in Canadian dollars, as is shown in their ledgers. However, in verifying the Bank of Canada's statistical summary I found that at that time we had in excess of $7 billion of personal savings. But in looking over the Bank of Canada's statistical summary at the same time I found that the total assets of the Bank of Canada including all the currency is approximately $3 billion. This caused me to wonder what would

happen if we all decided to withdraw all our savings at one time. This appears to be another paradox. However, in view of the fact that bankers cannot lend our deposits we should be able to withdraw all our savings at one time.

I believe that paragraphs 24 to 29 are important enough, Mr. Chairman, that I should read them to the committee.

> While discussing Canadian banking with an economic adviser of the Federal Government, I asked the following question:
>
> > "How could the Canadian people hope to be able to get their savings of $7 billion from the chartered banks,—that is their personal savings in chartered banks—providing they all decided to withdraw them at one time, when there is less than $3 billion of Canadian currency in existence?"
>
> He suggested that my answer to this question should come from the Bank of Canada and arranged a conference for me with its research department.
>
> The research department assured me that my reasoning was correct: "Most of our personal savings are nothnig more than bank credit, created by chartered banks and loaned to the people individually and collectively at interest. The loans appeared orginally as deposits in the borrowers' accounts, but because of business activities, have been transferred from the borrowers' accounts to our savings accounts." They suggested that further questions on money and banking could be put in letter form and sent to the Bank of Canada.

I followed through with this recommendation, Mr. Chairman and members.

> The Bank of Canada has affirmed by letter, that bank loans appear as deposits in the borrowers' accounts, without lowering any other deposits. This confirms the statement made earlier, that every bank loan increases our total money supply. Our total money supply, of approximately $15 billion is made up of currency plus bank deposits.
>
> Let us consider the manner in which Graham Towers, when he was governor of the Bank of Canada, explained the creation of money and/or bank credit, by the chartered banks. On page 285 of the 1939 Banking and Commerce Report it is recorded that Mr. Towers agreed to the statement; that the chartered banks do not lend money, but bank credit, a substitute for money. One of the questions asked was: "Then we authorize the banks to issue a substitute for money?" Mr. Towers answered: "Yes, I think that is a fair statement of banking."
>
> On page 79 in the Book "Understanding the Canadian Economy", which is used as an authorized text in many Canadian schools, under the heading "The creation of money by banks," the following appears:
>
> > "We have already learned that the most important kind of money is credit. The most important kind of credit is the credit created out of thin air by the banking system. Eighty percent of the volume of business in Canada uses money that isn't there. Banks lend it out of nowhere to people, and when it is paid back it returns to nowhere. It can't be seen, yet it can make the difference between full employment

and mass unemployment. Most of the revenue of banks is interest on money that does not exist."

Paragraph 30 deals with the section, "Let us consider three different methods of the expansion of cash reserves and the effect that they have on our system."

> As previously illustrated, the deposit of $100.00 in Canadian currency with the chartered banking system is sufficient cash reserve for the chartered banks to create $1,150.00 of bank credit and lend it to the Canadian people at interest. This means that $100.00 of Canadian currency on deposit with the chartered banking system enables the chartered banks to collect interest on $1,150.00 of bank loans.

May I say that this is considered at a 6 per cent ceiling which is now in existence, and it is proposed that it will go higher, and it does not take into consideration the other methods of loans that the banks now engage in—that is, where you pay back on a monthly basis and so on. But considering it at a 6 per cent rate and considering that the interest paid to the depositor on the savings is approximately 3 per cent, it is obvious to see that

> The chartered banks can make a gross yearly profit of $66.00 on $100.00 of Canadian currency deposited with them for safe keeping—which they never owned in the first place.

Paragraph 32 deals with the case in which senior citizens deposit their old age pension cheques in a bank as personal savings.

The $55.00 appears as a deposit in the elderly person's bank account and increases the cash reserves of the chartered banks by $55.00, for all of these pension cheques are cleared through the Bank of Canada. The transfer which takes place, at the Bank of Canada, is from the Government of Canada's account to the chartered banks' account. This transfer increases the deposits of the chartered banks with the Bank of Canada, without lowering their supply of Bank of Canada notes. Since the cash reserves of the chartered banks are made up of deposits with, and notes, of, the Bank of Canada, the deposit of a $55.00 pension cheque with the chartered banking system increases their cash reserves by an equal amount. This increase of $55.00 in the cash reserves of the chartered banks enables them to create an additional $632.50 of bank credit and lend it to the Canadian people at interest.

Now section 33 deals with what happened in Canada in 1958 at the time of the conversion change-over, when Mr. Diefenbaker had his conversion of bonds and so on.

> Our total money supply was increased by approximately $1.6 billion in the twelve month period ending October 1958. This increase was in the form of extra money needed to purchase the additional direct and guaranteed funded securities of the Federal Government. The majority of these securities were Government of Canada bonds. The investing public outside the banks were reluctant to purchase these securities. Thus the Bank of Canada commenced to purchase a percentage of the Government of Canada bonds. Since the purchase of securities by the Bank of Canada increases the cash reserves of the chartered banks; the action taken by the Bank of Canada, in this instance, increased the cash reserves of the

chartered banks sufficiently for them to increase their bank credit by $1.3 billion and purchase the remainder of the Federal Government direct and guaranteed funded securities, by merely increasing the figures in their own ledgers. Canadians are being taxed in excess of $40 million per year to pay the interest on these securities purchased by the chartered banks, with credit created out of thin air.

In paragraph 34:

> We are being taxed in excess of $800 million per year to pay the interest on our national debt, which has been incurred over the years because of our imperfect money and banking system. Approximately fourteen cents out of every tax dollar we pay to the Federal Government, whether it be direct or indirect taxation, is used to pay the interest on this debt.

At the top of paragraph 35 it states:

> Our total money supply comes into existence in the manner which has been put forth. We Canadians, individually and collectively, are paying interest to the chartered banks on approximately 80 per cent of our total money supply, which they, the chartered banks created out of thin air by writing figures in their own books.

The other section of paragraph 35 I read to you earlier and I re-emphasize that I do not find a quarrel with the chartered banking system; I find the quarrel with the federal government and their Bank Act.

Reading on in paragraph 36:

> According to section No. 91 of the British North America Act the federal government has the right, and it is their responsibility, to create our money and regulate our banking system. It is quite evident that the present banking system has failed to serve the best interests of the Canadian people.

Paragraph 37:

> The imperfections in our present money and banking system, and the corrections which could and should, be made in the same, are better understood when we consider the following facts pertaining to economics:
>
> "A money system is good and without it we could not have reached the standard of living that we now enjoy."

I might say, Mr. Chairman, that I discussed this many years ago with one of the honourable members who plays a very prominent part with the opposition party, in the House of Commons, and he agreed with these statements. In my wind-up he said that I made it sound so easy. If it sounds so easy I wonder why we cannot have some of these things put into being.

> "Money has but one function, to assist in the distribution of materials from the producer to the consumer, either now or at some time in the future."
>
> "The only reason for production is consumption."

"The consumer is equally as important as the producer, for without consumption there is no need for production."

"Money is but a medium of exchange and in itself has no real value."

"It is the production of our country which gives our money its real value."

"To have a balanced economy the amount of money in circulation (money times velocity) must be equal to the production of our country."

"Money, the life blood of our nation, has to be in circulation to perform the function for which it was created."

I have to give credit for the last portion of this to a 19 year old boy—he allowed me to use this last section. I think it can be well taken and well digested.

"The purpose of society is to gather collectively, for consumption individually, the product of our intellectual, inherited and natural resources."

This, gentlemen, more or less points out the imperfections in our present system. In a report I have here of James Coyne, which is dated November 14, 1960 and was delivered in Toronto to the Canadian Club, I believe, he says:

To criticize is no good; you must have an alternative.

Mr. Chairman, it is now that I would like to turn to the alternative, which is the former part of my brief. I will read only a portion of the section that is numbered 1:

The proposed changes, which will alter the present and the suggested banking system, are of a two-fold nature. The one pertaining to creation, the other to the regulation, of our total money supply.

The creation of our total money supply should eventually become the duty and the function of the Bank of Canada. The regulating of our money supply should be done scientifically and based upon the amount of purchasable production available in Canada

Number 3 would be superfluous at this time.

Moving to number 4:

Before we can properly analyze the proposed changes, and the effects they will have on Canada and Canadians, it is necessary to evaluate our present economy. To do this let us fix in our minds a map of this great country, with all its raw materials and natural resources.

Without raw materials and natural resources a country is handicapped. However, in Canada we are blessed in this respect, for we have plenty of both.

The raw materials and natural resources are of little value until they are transported to our factories and processed. Thus we must consider our transportation and manufacturing facilities.

We have adequate transportation facility. The highways, waterways, railways, not to mention our air transportation, do a good job, and can be expanded if necessary.

In considering our manufacturing facilities, we find that our factories are operating below capacity, some closed down completely.

The rate of production of our factories is directly affected by two factors, other than raw materials and natural resources. The one being manpower, and the other being the ability to sell the finished product.

There is no shortage of manpower in Canada. We have that undesirable condition where thousands of men and women are unemployed. Thus the slow down of our manufacturing facilities is caused by the inability to sell the finished products.

The produce presently filling our stores and warehouses is made up of Canadian materials, and imports received in exchange for the same. Thus for all practical purposes, this purchasable production, presently filling our stores and warehouses, can be considered as Canadian materials. These materials came out of Canada, reaching from British Columbia on the west to Newfoundland on the east, from our farms, our forests, our factories, fisheries and mines, and were produced by Canadians individually and collectively.

The economy of our country depends upon three factors, production, consumption, and the population; individual Canadians, who collectively make up the population, being the most important aspect.

A high level of unemployment at a time when the factories are operating below capacity, such as we have in Canada at the present time, is a true indication of an undesirable economy.

The vast majority of Canadians are looking for guidance from the various governmental bodies to establish a desirable economy. A desirable economy is one which would utilize all modern methods of production, at the same time offering employment to all.

It is the purpose of this document to point out, and substantiate, that: "There is a national inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy."

Mr. Chairman, I think that that particular sentence, which is the hub of my whole presentation, warrants repeating.

The CHAIRMAN: Mr. Rowat, I hesitate to interrupt you during your presentation, but we have not generally permitted other witnesses to go through their briefs in their entirety. In fairness to others, I think I should ask you to deal with your specific proposals or recommendations for a change, if you have not done so already so that we could move on, without too much further delay, and have any questions or comments that the members might have. I say this without prejudice to your views, it is merely an attempt to proceed in an orderly manner and in a way which is consistent with our treatment of other witnesses.

Mr. ROWAT: I will respect your request, Mr. Chairman. However, I would like to point out that my brief is not lengthy. I will respect your request and move on to other sections but I will have to read them out of their context, Mr. Chairman, if that is satisfactory to you.

The CHAIRMAN: Of course, your brief was distributed some days before your appearance and the members have had an opportunity to consider it. That is the

reason, of course, why we do not generally call upon people to read their briefs in their entirety unless they consist of only a few short paragraphs.

Mr. ROWAT: Very well, I will take and touch what would be considered as the more important aspects of it, Mr. Chairman.

The CHAIRMAN: Because the important thing, perhaps, at this time, except for your own personal appearance, is to give members who have questions or comments arising out of their prior study to have an opportunity to bring them forward if they wish to do so.

Mr. ROWAT: I will accept your recommendation, Mr. Chairman.

On the top of number 19 I say:

> Hereafter in this brief, the proposed changes in the banking system will be referred to as the solution. The application of which will require:
>
> (a) That the money supply of our country be regulated, and determined by a given national inventory level of purchasable production, which will be calculated scientifically and at regular intervals as required.
>
> (b) That the Bank of Canada become the sole creator of all additional money supply needed in Canada.
>
> (c) That all additional money supply, created by the Bank of Canada, be channelled through a National Credit Account.
>
> (d) That all moneys in the National Credit Account be allocated to the needs of the Canadian people, according to the will of the people, as expressed through their elected federal representatives.

I have a couple of points here which I have ducked through. I would not know what exactly is there but I hit one that is important.

> Since the Bank of Canada will become the sole creator of all additional money supply in Canada, the amount of chartered bank credit now in existence, (which is part of our money supply), must not be increased, regardless of any further action taken by the Bank of Canada.

At the bottom of the page in paragraph 31, I have also marked it as important.

> When the solution is applied it will make increased production, be it caused by automation, cybernation, or otherwise, a real blessing to Canada and Canadians. It will overcome, once and for all, the stumbling block of distribution, which is presently handicapping the economy of the western world, of which we are a part.

I will now read only my concluding paragraph, Mr. Chairman.

> Mr. Chairman and members of this standing committee of Finance, Trade and Economic Affairs, the establishment of a desirable economy in Canada will be one of the greatest contributions that can, and must be made, to solidify our nation. It is the answer to the Honourable Prime Minister's war on poverty, and will assure that Canadians, one and all, can have the best health and educational system, which is physically possible to produce.

Respectfully submitted, by myself, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Rowat. You, of course, understand that the other paragraphs you have not read make up the total scheme of your presentation and we will not overlook that.

Are there any questions or comments from members of the Committee or other members of the House in attendance at this time?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are you being correct, Mr. Rowat, when you suggest the Bank of Canada is to become the sole creator of all our money supply? You have already pointed out that the vast bulk of our money is comprised in bank credit. Could you tell us how you propose the Bank of Canada is to perform this function of credit expansion? Are you suggesting—I am not suggesting that it might not be a good idea—that the Bank of Canada should take over the functions of the present private commercial banks, establish branches throughout the country and perform the functions of the present private banking system? If not, then how do you propose that the Bank of Canada shall create the credit which now constitutes the major part of our money supply?

Mr. ROWAT: In answer to your question, Mr. Cameron, no, I do not propose that the Bank of Canada should take over the functions of the chartered banking system. In answer to the second portion of your question, I would almost be required, Mr. Chairman, to read into the record the portions that I missed. I think these would have clarified the points Mr. Cameron has brought forth. However, without—

The CHAIRMAN: Use your own words and just give us verbally a conversational exchange.

Mr. ROWAT: This would be fine; as a matter of fact, I operate better that way, Mr. Chairman.

The point in question is, Mr. Cameron, that I see the chartered banks performing a very essential service in our country and I would defend with my life, as I have said in the past, the idea of nationalizing the same. However, to answer the second portion of your question in which you wanted to know by what method the Bank of Canada would determine the amount of added, and I will use the term, money supply, because this is part now of what we consider bank credit as well as cash, the proposal put forth is that if you were to visualize myself in my place of business and you have seen the inventory that presently fills my place—that is purchasable production which I offer for sale—and you come in and commence to purchase it by cash and try to force my inventory down—we will use a figure only for illustration purposes—by one third, I would pick up the phone and telephone my supplier; he, in turn, would set off a chain reaction which would go back to the manufacturer. I would then possibly be one of the most lucrative businesses in Canada if you commenced to try to purchase by cash one third of the inventory I had in stock.

When you take this on my particular business alone and then expand it to the whole of the Dominion of Canada, you come to realization that there is an inventory level of purchasable production which when maintained by effective demand, and I will define that for you, Mr. Cameron, will bring about the desirable economy which I do not think needs to be defined.

The point in question is what is the difference between demand and effective demand. This must be understood. You can take 100 persons standing in front of a foodmarket and they have a demand for food but if they do not have 20 cents

to buy a loaf of bread, or more as it may be today, which is available their demand does not become effective. Thus, I suggest to you and to the Committee and to all assembled, that since there is a level of inventory of purchasable production which when maintained by effective demand will bring about this condition, it should be the determining factor regulating our total money supply and any time the inventory is above this level, Mr. Cameron, would be justification, which it is at the present time, for the federal parliament, that is, you gentlemen and your associates, to instruct the Bank of Canada to issue that amount of bank credit, money supply, or any term you like.

This newly created money by the Bank of Canada would not belong to the Bank of Canada; it would not belong to you people of the federal parliament but would belong to the Canadian people and you people, that is, the federal government, would just be the administrators of this portion of our affairs. The particular money that they created against the production of our country would be allocated to a national credit account and it would be the duty of the House of Commons to re-channel this money to the needs of the Canadian people according to the will of the Canadian people as expressed through you, our federal elected representatives. Does that answer your question, Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, it does not, Mr. Rowat. It does not answer it at all.

A little earlier you said that you recognized that the chartered banks performed a useful function in our economy. Would you agree that the major part of that useful function is the necessary credit expansions from time to time, and I am holding no brief for the private banks? My own private view is that they should not be in private hands, but, on the other hand, this is a function that is performed and you still have not explained to me how the central bank will take over this function.

Mr. ROWAT: I did make it plain in my brief; I assumed that when this particular change takes place, the chartered banks would not be able to expand further the bank credit as they have done in the past. Have I made that clear?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. ROWAT: All right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But you have not told me how it is going to be expanded.

Mr. ROWAT: Just a minute. Now, if they do not expand the money supply as they have in the past—you understand this portion of it—and if the Bank of Canada is called upon to perform this function in the future for all needed added money supply, then this would be where the added money supply would come from. Is this clear?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is clear if by this you mean the central bank is going to take over the functions of the commercial banks.

Mr. ROWAT: Not take over the functions of the commercial banks but take over the function of the creation—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Suppose in the conduct of your business, Mr. Rowat, you decided it was necessary for your to expand your

business and you are required to get some credit for expansion, do I assume from what you say that you would apply to the Bank of Canada for this credit?

Mr. ROWAT: By no means would I apply to the Bank of Canada. I would look for this money to expand my business from the financial houses in the country, the same as we do at the present time. The only thing I would not be able to do would be that I would not be able to go to my chartered banker friends and I use the word "friends", and ask them for a loan of what they do at the present time, a new creation. Possibly some members of this particular Committee and possibly some of the bankers who are listening to my presentation are not aware of exactly what does happen. I know many of the managers in our banks are not aware of what happens. In order to more or less answer your question, Mr. Cameron, that this would not be what I would do in the future, I at one given moment in time went into a bank with an associate of mine because I required, let us say, a loan of $1,000. The banker brought out the necessary papers and we signed the necessary papers. A short time later he brought me out a bank book in which he had credited to my account, $1,000. At this moment of time I asked the banker out of whose account had he taken this $1,000. He replied that he had not taken it out of anybody's account. I said that if he had not taken it out of anybody's account, where did it come from? I told him that I had been watching the front door ever since I had come and nobody had come in the front door with $1,000 for you to show it in my bank book. I suggested to him that because of this transaction, and this one transaction alone, there is $1,000 more money on deposit in Canada than there had been five minutes ago and, thus, I said to my friend the banker, that you have just created by the stroke of a pen $1,000 of added money supply in Canada.

This would not be the method by which I would borrow my money under the proposed system. However, what I would like to express to you and to the other members is that the money that would be created by the Bank of Canada, once it came into my possession, would be similar to the dollar bills that I now have in my pocket. I consider these dollar bills I have in my pocket my own private capital. Thus there would be sufficient private capital in the country to greatly develop the natural resources and carry on the commerce, as I see it, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, Mr. Rowat, then do I understand that when you speak about the central bank creating all the new necessary money you are speaking of the creation of actual dollar bills? Is that right?

Mr. ROWAT: It does not necessarily have to be dollar bills, Mr. Cameron, because with our particular banking system, as you are aware, when the Bank of Canada today, for instance, purchases an additional government of Canada bond, they do not necessarily go to the Mint to create the money to put into existence. However, I listened to and looked over some of the reports which were presented here. Mr. Rasminsky, when he was in the chair which I now occupy, referred to these as being high pressure dollars. I believe that was the terminology he used. These can be high pressure dollars without being dollar bills because when the Bank of Canada purchases an additional government of Canada bond, what in effect happens is that they credit the government of Canada's account at the Bank of Canada with the amount of the bond and this keeps their ledgers always

balanced, because the bonds increase their portfolio on the asset side and the deposit and liability increase the other side of the ledger and it always balances, Mr. Cameron. Therefore I suggest to you that it would not have to be added dollar bills but it would have to be the high pressure dollars, our money supply essentially.

Now, remember I used the word "essentially" because to bring this into being at a snap decison could be disastrous. Now, let us not fool ourselves. This could be disastrous to try to make too quick a change. But, what I am suggesting is that eventually our money supply would be made up of all high pressure dollars which would not have the effect of allowing the chartered banks to expand. I think possibly, Mr. Chairman, I could read again from this particular article of Mr. Coyne when he was Governor of the Bank of Canada. It was given, as I said, on November 14, to the Canadian Club in Toronto.

The CHAIRMAN: What year?

Mr. ROWAT: In 1960. It stated as follows:

> An increase in the volume of bank deposits and in the resources of the banking system may at times be necessary in order to provide adequately for the normal credit requirements of business. When these are adquately provided for, a further increase in monetary resources—

And I quote mixed with emphasis.

> —created out of nothing by the central bank and the banking system—

I want to get this on the record here, Mr. Cameron. And then I want to turn back and refer to what happens when he creates these high pressure dollars as was stated by Mr. Coyne in those days:

> One of the difficulties from a practical point of view in carrying out any such program is that there can be no assurance that the central bank could in fact effectively hold down interest rates under such conditions for more than a short period of time. The attempt to do so would require a considerable amount of purchasing of securities in the market by the central bank—

The next is very important.

> —which would increase the cash reserves of the chartered banks and give rise to a large further amount of purchases of securities or credit expansion by the chartered banks. The total increase—

And this is rather interesting.

> —in the money supply would be about twelve times as great as the amount of purchasing done by the central bank.

Now, this is under the present system and he says this would not work. However, I submit again that putting into being the proposals that I have put forth: that is, making the Bank of Canada the sole creator of all additional money supplies from this moment of time on will eliminate the problem and that it will take a progressive step to get to the ultimate end, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): One final question, Mr. Rowat; what function would the present chartered banks perform in our economy in those circumstances?

Mr. ROWAT: Are you asking what function they would perform?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes?

Mr. ROWAT: Or what function they do perform?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): What function they would perform. I know the function they do perform but what function would they perform under your scheme?

Mr. ROWAT: Mr. Cameron, in answering that particular question I first of all will have to preface it with a certain remark. It has been said, but it has never been proven to my satisfaction, that the credit unions actually create and expand our money supply. This has never been proven to my satisfaction because I hold the view that the credit unions, as I understand it under the provision of the Ontario jurisdiction, do not expand their money supply. I want to make this as a preface. Now, this is my opinion; I have never been shown otherwise. To this I would add that the chartered banking system would perform the same function in the future that the credit unions are performing at this present time and the credit unions are a lucrative business. I do not see why the chartered banks could not still be a lucrative business and perform a very satisfactory service to our country, Mr. Cameron.

Mr. CAMERON (*Nanimo-Cowichan-The Islands*): As some savings banks?

Mr. ROWAT: It all depends on your definition of savings banks. If you have used that in light of the Quebec savings banks I would have to say no. This is another subject; it would take us possibly as long to get into it as the one in which we are now engaged. But I will assure you if you are thinking in terms of the Quebec savings banks you might come to a great surprise when you understand the real operations of the Quebec savings banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is all, Mr. Chairman.

The CHAIRMAN: Next I will recognize Mr. Laflamme followed by Dr. McLean and then Mr. Laprise.

Mr. LAFLAMME: I have only one question, Mr. Chairman. In Paragraph 10, Mr. Rowat you state that perhaps a slowdown of our own manufacturing facilities is caused by the inability to sell the finished products?

Mr. ROWAT: Yes.

Mr. LAFLAMME: How could you change the inability to sell the finished products?

Mr. ROWAT: You are reading No. 10 on page 1?

Mr. LAFLAMME: Yes?

Mr. ROWAT: I said there is no shortage of manpower in Canada and I do not think anybody will quarrel with that statement.

Mr. LAFLAMME: Skilled manpower, you mean?

Mr. ROWAT: Let me say they talk about skilled and unskilled but I would like to draw to the Committee's attention that in 1929 through to 1939, in the days of the great depression, when I was a boy, we had a great deal of unskilled labour in Canada, which they claim we have today. But in 1939, they declared war and this unskilled labour became skilled labour almost overnight. Every-

thing began to roll and hum and buzz. Therefore, I cannot accept the idea of skilled or unskilled labour. I wanted to clarify that one point before moving on.

Mr. LAFLAMME: Just a moment, I want to follow you on this.

Mr. ROWAT: Very well.

Mr. LAFLAMME: To get rid of the unemployment you have to put back the men to manufacture do you not?

Mr. ROWAT: This is quite true.

Mr. LAFLAMME: Yes.

Mr. ROWAT: Now then—

Mr. LAFLAMME: If they produce, as you say in Paragraph 10, how do you eliminate what you call the inability to sell the finished products?

Mr. ROWAT: All right; this follows somewhat the remarks I was making to Mr. Cameron. It is more or less a follow-up of his questions. Now, I use the illustration in here and may I use it once more and bring it out a little more clearly. We have a condition in the community in which I live where we are about to build a new school. The estimated cost of the construction of this new school is $300,000. We are told that to go out and sell debentures on it, which we are advised to do, that over a period of years this school will cost us $555,000. Just a minute, this has a bearing on your question. The only reason we are not building more schools, and so on, is that the municipalities and the people both individually and collectively refuse to go further into debt. There are certain people who do not have the credit facilities to go even further into debt. I am reminded of a television show I saw not very long ago, I believe, down in New Brunswick on the deplorable conditions down there. If these people had the dollars—Well I cannot help it if I am stubbing somebody's toes. I seem to have created something here, I do not know what. It was not intentional I assure any hon. member that may be present from the Maritimes. But I assure you if they had the dollars to buy the bricks that could be available to build the decent homes and schools and roads and what not that are needed in that province it would certainly stimulate the economy and bring this about. The only reason they have not got it is that they have not got the necessary dollars to buy the materials, which in my opinion are avaliable. Thus, if this money came out of the Bank of Canada it would not be an added debt. As a matter of fact it would lower debt and lower taxation when it came into being, as it came out of the Bank of Canada and went into the national credit account. Let us assume that the money from the national credit account came to our community to build our new school and we had to pay only the cost of administration which in reality, in the last year that I was able to find the figures of the Bank of Canada, were somewhere in the neighbourhood of .3004 of 1 per cent, which is less than half of one per cent, if we could get our money to build our school at less than one half of one per cent, coming from the Bank of Canada, then we would have a reduction to the taxpayers in our locality of $200,000 over a period of 20 years on the construction of the school and I am sure Mr. Cameron would agree with this. Thus, I say to you in all sincerity, if you expand this over the whole of the dominion and finance the construction of non-profit, civil services out of money coming from the Bank of Canada, at the cost of administration, you would find there would be ample left to finance the construction and the advancement of

our national resources; yes, and do what Walter Gordon wants to do, buy Canada back from the States. I wholeheartedly agree and I maintain this would allow us to have not only economic nationalism, yes, but solidarity, too. I do not think the province of Quebec wants to opt out because of this and that. I think the province of Quebec is an economic problem and solve the economic problems of our country, gentlemen, and as I have said here before you have a scientific solution to Canada's economic problems. I am not looking for any 5 per cent royalty on a billion dollars either, gentlemen.

Mr. LAFLAMME: This is not a question, Mr. Chairman, but as I understand the witness there is only one solution in his mind which is to get enough money and to put enough money in everyone's hands who wants to buy anything that can be produced.

Mr. ROWAT: I did not make that remark.

Mr. LAFLAMME: Yes, but—

Mr. ROWAT: Mr. Laflamme, I must clarify this point, lest I be misunderstood. I said that the controlling factor regulating the amount of new money coming into existence would be our inventory level of purchasable production. Thus, if you take it from this point of view and there is another section in my brief which I did not read Mr. Chairman which I will have to refer to in order to answer his question, I put in there "this inventory level of purchasable production". I do not know what level it is but it is somewhere from where we are now at full storehouses and warehouses to empty at the bottom. I state in the brief that if the original estimate is not correct, when it is put into application, the figure will soon be arrived at, but I also went further than this and said that if for any given reason we had a famine in this country—and this is the best example I can find—and our production went down, there would have to be an equitable taxation system to take the redundant credit out of the system in order to allow us to have a balanced economy.

Mr. LAFLAMME: That is all, Mr. Chairman.

The CHAIRMAN: I now recognize Dr. McLean followed by Mr. Laprise and Mr. Thompson.

Mr. MCLEAN (*Charlotte*): Well, Mr. Rowat, I was kind of intrigued with your explanation about this money that was going to be created. As a manufacturer I am not particularly interested. I want to get the money when I want it. If I get it from the chartered banks, O.K. Do you mean to tell me that I am going to get this money from the Bank of Canada if I want it? Do I have to pay interest on it?

Mr. ROWAT: Is that your question, Mr. McLean?

Mr. MCLEAN (*Charlotte*): Yes. I would like to know about this expansion of credit. We have had restrictions on credit. At the present time what would you suggest; that the Bank of Canada would issue more money? Would they issue it at interest, how would I get it?

Mr. ROWAT: You are talking about you as an individual. All right.

Mr. MCLEAN (*Charlotte*): As a corporation.

Mr. ROWAT: I will take it that way. Let us assume that the particular arrangement I propose was in existence. This is what you—

Mr. MCLEAN (*Charlotte*): No. I want to know now.

Mr. ROWAT: If you are asking me about present arrangements—

Mr. MCLEAN (*Charlotte*): Well, how would you arrange for me to get this money. Say we have present arrangements; how would you arrange for me to get this money.

Mr. ROWAT: Very well, I will answer your question. I have suggested to you that the Bank of Canada would create this money against our real wealth of the country which is our production. I suggested to you that this money would go through the national credit account to be allocated to the needs of the people, according to the will of the people as expressed through their federal elected representatives of which you are one.

Mr. MCLEAN (*Charlotte*): Well how—

Mr. ROWAT: Just wait now; let me explain.

The CHAIRMAN: Let Mr. Rowat complete his answer.

Mr. ROWAT: Let me complete the answer, if I may. I suggest to you that this money would go out, in the form, let us say, of old age pension or family allowances, whatever way you as the members decided to get it out. Now this would not come into being with any interest charges against it other than the administrative costs of the Bank of Canada which we pay at the present time. I mentioned a moment this is less than one half of one per cent. Now then, once this got out into the market and got to the people, these people in turn want to reinvest it. We have credit unions that loan money to corporations, and I suggest to you that the chartered banks would be only too glad to loan you the money they would have, although, granted, there would have to be certain restrictions made. I might even state to the chartered banking system in relation to the personal savings they now hold—and one particular high official in one of the banks—I do not wish to name him—said to me that it is these personal savings that is driving the chartered banks crazy. But I suggest to you that when this particular situation would change, then this service that the chartered banks perform for us could be considered the same thing as you wanting to store an automobile. If you store an automobile you expect to pay storage charges on it. However, if you allow the man to use the automobile, to show him a profit, then he might be prepared to pay you a rental for it. This is the position which the chartered banks in my opinion will eventually reach. Now, I assure you that when this comes into being and our public services are financed from the National credit account, there will be ample money for all companies in this country to develop the manufacturing and the natural resources, as I see it.

Mr. MCLEAN (*Charlotte*): But in the meantime, I want $1 million.

Mr. ROWAT: In the meantime you had better get over into the House of Commons and make the necessary changes in the Bank Act so that you will be able to get your $1 million, Mr. McLean.

Mr. MCLEAN (*Charlotte*): That does not relieve me now; I want the $1 million now.

Mr. ROWAT: But, you see, Mr. McLean, that under the present system I have no jurisdiction to tell you what you can do now. Maybe some of your banker friends, if they have enough cash reserves, could loan you $1 million by creating it with the stroke of a pen and then charging it to your account.

Mr. MCLEAN (*Charlotte*): I know, but this is theory.

Mr. ROWAT: No, I am not talking theory. I am prepared to substantiate what I say now. The theory is in the future, but as for the present I will substantiate that, Mr. McLean.

Mr. MCLEAN (*Charlotte*): How are you going to make the people of Canada eat 1,400,000 cases of sardines?

Mr. ROWAT: But, you must understand, Mr. McLean, that our world is shrinking very fast. As long as there are hungry people in the world—we are feeding Red China with wheat, and I read in the paper the other day they do not know what they are going to do with the wheat that is being loaded; whether they are going to send it over there, and because they have a revolution we get nothing out of it, I do not know. I did not get the answer to this and many other questions.

Mr. MCLEAN (*Charlotte*): We expand the money supply, buy the goods in Canada, and give it to Red China; is that the idea?

Mr. ROWAT: No, I would not suggest we give it to Red China, but I would make one more statement here which I omitted from my brief, Mr. Chairman. Again, this comes to me from the Department of Trade and Commerce. I discussed this with the Department of Trade and Commerce in all the aspects that I have discussed it with you gentlemen here. Again I would say, that the economist whom I met with said "please leave me anonymous", and I will respect his request. I have had this request to remain anonymous from many economists, but they supplied me with, what I consider to be, very vital information. This gentleman in the Department of Trade and Commerce assured me that were this put into operation in Canada, it would bring about the results that I suggested to you; that is, a desirable economy, and so on. He went further to state that if we allowed our dollar to find its own level in the world market we could balance our exports and our imports without duties and without tariffs. Now, Mr. Chairman, this would take a lot of explaining if some of the gentlemen would like to question me on it. But this particular economist showed me how this would actually operate, and in part it is, again, in my brief using the differentiation of values between Canada and the United States—if you have studied the brief—and how one encourages imports and how the other encourages exports. They assured me, and this was again reaffirmed by another Ph.D. in economics, he said this is absolutely correct; this will happen, and I could supply these names if they doubted my statements, Mr. Chairman.

An hon. MEMBER: Mr. Chairman, may I ask a supplementary question?

The CHAIRMAN: I think Mr. Flemming already indicated he had a comment. Perhaps I will recognize him first.

An hon. MEMBER: All right.

Mr. FLEMMING: I have a supplementary to Dr. McLean's question concerning how he got his $1 million. Provided the legislation which Mr. Rowat suggests

should be passed and which is desirable, what is the actual mechanics of Dr. McLean getting $1 million to pay the people who bring in the fish to his plant and who have to get their money? How does the Bank of Canada get it to him? How is he going to get it?

Mr. ROWAT: Now again I used an illustration in my particular arrangement here which I did not read, Mr. Chairman; I might better have read it all; I think it would heve been quicker. However, this gives me a greater opportunity to advance it in detail. I started off to say that if we took the present inventory level of purchasable production at being $3X billions—and I used "X", an unknown, so I will not be crucified on the monetary cross, as was stated by one of our friends south of the border one time—I used the figure "X" because it is an unknown quantity.—Now, with this in mind, providing that the inventory level which would bring about a desirable economy was $2X billion, then this is justification for the federal parliament instructing the Bank of Canada to create $1X billion. Now this $1X billion, as I stated before, would not be the property of the Bank of Canada, would not be the property of the federal government, but would be channelled into a national credit account. I stated very emphatically that this money in the national credit account must be allocated to the needs of the Canadian people, according to the will of the Canadian people, expressed through you our elected representatives.

Mr. FLEMMING: In this specific instance, how did Dr. McLean get the money?

Mr. ROWAT: My specific answer is this: once this particular money goes out into existence and let us assume—

Mr. FLEMMING: Out into existence from what?

Mr. ROWAT: Out from the national credit account to finance the construction of our new schools—

Mr. FLEMMING: On whose order?

Mr. ROWAT: On the orders of you the members of the federal parliament. This particular money goes into the credit account. I know it is a new concept.

Mr. FLEMMING: I do not want to embarrass you.

Mr. ROWAT: You are not embarrassing me, Mr. Flemming.

The CHAIRMAN: Do I understand you to say that financing of government activities, including construction of roads, buildings, a payment of social welfare benefits, and so on, be carried out through the funds placed in this credit account which would not be derived from the raising of taxes but rather from the credit raising facilities of this new energy you tell us about? And the people who will be paid wages, and what have you, for building the roads and schools would then have these dollars to go and buy Dr. McLean's sardines.

Mr. ROWAT: Not only to buy his sardines, but to buy stock in his company if he is offering it for sale. I must say further to this—

The CHAIRMAN: You had better inquire into that.

Mr. ROWAT: Well, he wanted to know where he could borrow $1 million, I figured he was prepared to sell stock in his company; I just assumed that he was, I did not know.

Mr. FLEMMING: He would pay it back in a couple of months.

Mr. ROWAT: Well, this is all right, he can pay it back and then somebody else will be looking for it to develop—

Mr. FLEMMING: He sends the fish all over the world, Mr. Rowat.

Mr. ROWAT: Yes, but I pointed out a moment ago, and nobody questioned me on it, the fact that when this becomes a reality—and I have not answered your last question, which I will, Mr. Flemming—and our Canadian dollar is allowed to find its own level in the world market, we will be able to balance exports and imports without tariffs and without duties. What more could Mr. McLean want than that; a wide open market in the world for his product.

Mr. MCLEAN (*Charlotte*): How can you regulate other people's tariffs? How can you regulate the tariffs of Australia and New Zealand, and so forth?

Mr. ROWAT: I cannot regulate their tariffs, nor do I have to regulate their tariffs. But I should suggest to you, that if you made a study—and I could go into it in greater detail if the hon. members would like me to—of the exchange banks, and I could quote Mr. Coyne here, and maybe will if they persist in this, of how the dollar fluctuates up and down and the effect it has on this, you would not have to interfere with their tariffs at all. By allowing our dollar to find its own level in the world market, I have been assured, and can verify, I believe, the fact that you can balance your exports and your imports without tariffs and without duties, Mr. McLean.

Mr. MCLEAN (*Charlotte*): Well, I have had 50 years experience, and I would rather go by experience than theory.

Mr. ROWAT: I used this illustration a short while ago with a friend of mine who questioned the thought of my being able to even suggest to this Committee that the money for the financing and construction of new schools would come from the Bank of Canada, and he said "It is unheard of; I have been in this country 50 years and I have never seen it". I said "Turn back your mind 2,000 years; how many super jets did you see flying through the sky?" He said, "I did not see any". I said, "How many do you see now?" He said, "There are plenty". I said, "It had to be born in the concept of somebody's mind to start the movement to bring about this desirable end". I suggest to you, Mr. McLean, with all due reverence, that this is what has to happen. It is a new concept, but if it will work, why not have it?

Mr. MCLEAN (*Charlotte*): Would you not suggest to me though that I continue on with the commercial banks?

Mr. ROWAT: You have no alternative but to continue on with the commercial banks. In my opinion, I hope the time will never come when Mr. Cameron's desires become a reality and that we nationalize the banks; because this would not be my wish.

Mr. GILBERT: I understand that my poor friend, Mr. McLean, wants a $1 million. You have suggested that he go to a credit union or a savings bank. Now, I thought in your brief that you were going to require these institutions to have 100 per cent reserves.

Mr. ROWAT: This could be quite true.

Mr. GILBERT: How could he borrow from the credit union or, say, a trust company—

Mr. ROWAT: Let me—

Mr. GILBERT: —if you are going to require that they have 100 per cent reserves.

Mr. ROWAT: Let me take an illustration to answer that for you. May I use you as the credit union?

Mr. GILBERT: Certainly, I am a member of a credit union.

Mr. ROWAT: Well, I have no quarrel with credit unions. Let me assume that I am a gentleman who has $1 million, and I am prepared to buy $1 million certificates in your credit union. Is there any reason why you cannot take my $1 million now and reloan it to Mr. McLean? Does this interfere with your 100 per cent cash reserves?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You could lend him half of it but that is all. If you make a loan you have got to have 100 per cent—

Mr. ROWAT: He has the $1 million, because I gave it to him in exchange for $1 million of his certificates in his credit union. I gave him my $1 million in exchange for $1 million of his certificates in his credit union. Is there any reason why he cannot go across now and loan that $1 million to Mr. McLean to expand his factory, if he needs it?

Mr. GILBERT: Well, just how do you define reserves in my credit union? You said 100 per cent reserves—

Mr. ROWAT: Just a minute; never in my brief did I touch on credit unions.

Mr. GILBERT: No.

Mr. ROWAT: I am talking about the chartered banking system. I said that the eventual desirable situation would be to bring our banking system to the point where the chartered banks, eventually—and I said it would have to be done progressively—would be operating on 100 per cent cash reserve and the Bank of Canada would become the sole creator of all of our money supply; but this could be 40 years or 50 years in the future. It has taken us 100 years to get into this, and let us hope we can get out of it in less than 100 years.

Mr. GILBERT: Well, I want to help Mr. McLean, because—

Mr. ROWAT: I have already shown you how you can help Mr. McLean. I suggested, in a figurative way, that I had the $1 million that I was prepared to give you for credit certificates in your credit union. What is wrong with you taking it across and loaning it to Mr. McLean at a higher rate of interest, which is the thought that most people hold in the present banking system, and showing yourself a profit, satisfying him and satisfying me? This has been resolved just that quickly in a triangle, if you take this hypothetical case.

The CHAIRMAN: Mr. Gilbert, perhaps you can continue trying to help Mr. McLean when we resume this afternoon. Now, before we recess, I would suggest to the Committee that, as you know, on Tuesday we are going to hear from the Federation of Agriculture and Cuna International. We do not have other witnesses on the banking legislation scheduled at the moment. Of course, that

Thursday, the 19th, we do have a private bill referred to us, a bill for the incorporation of the Northwest Life Insurance Company of Canada. I would suggest to the Committee that at 11 o'clock on Thursday morning we hear from the sponsors of this bill. Their solicitor has written me asking for an opportunity to be heard at some early date. I suggest that we proceed along those lines.

Now, this afternoon we can continue any questioning we may have of Mr. Rowat, and then we would hear from Mr. Hallat. This afternoon you will have the privilege of having our distinguished Vice-Chairman, Mr. Laflamme, in the chair. I declare this meeting recessed until 3.45.

AFTERNOON SITTING

The VICE-CHAIRMAN: Gentlemen, I will now call the meeting to order. First on my list is Mr. Laprise. Will you proceed.

(*Translation*)

Mr. Laprise, you may put your questions.

Mr. LAPRISE: I would like to know if, according to you, the Bank of Canada should finance the development of the federal government, provinces, municipalities and school boards without interest, or, as you mentioned, just for the cost of administration, without hurting those who buy Government bonds or who go through brokers to do so? Do you think that if the Bank of Canada were financing public investment this could be harmful to Canadian savings?

(*English*)

Mr. ROWAT: If I have correctly understood the question, it is whether or not the Bank of Canada's financing of public services, such as new schools, would be detrimental to our economy. The answer to this would be "no", it would not be detrimental to our economy. However, I have pointed out in my brief that any money coming out of the Bank of Canada—and I am thinking in terms of this purpose—must not become cash reserves of the chartered banks so that they in turn could increase it 11½ times in loans to Canadians individually and collectively. In my brief I have put forth the statement that when the proposed changes are made, the Bank of Canada would become the sole creator of all additional money supply in Canada. And there is nothing to say that the money, as I have stated in my brief, which would be allocated through a national credit account, could not be transferred by the government of the day—and I may have been incorrect this morning when I referred to Parliament; I should have said the government of the day—from the national credit account which was created by the Bank of Canada and put it through what has been suggested in the House as the municipal development bank; and then from the municipal development bank it would be used to finance the construction of new schools. I would not say this would be interest free; I would be more inclined to use your last remark "at the cost of administration", and say that the cost of administration should not exceed, according to my research, one half of 1 per cent, because today the Bank of Canada operates, according to my research and figures on roughly .3004 of 1 per cent. I do not think it would be harmful to our economy; I think it would be a great boost. As I said this morning, it would lower the taxes in one case in my

own particular jurisdiction; on a $300,000 school the taxpayers would be saved approximately $200,000 in taxes over the next 20 years, and I think this would be beneficial rather than detrimental.

(*Translation*)

Mr. CLERMONT: A supplementary question, please? When Mr. Rowat mentions the building of schools, how could the Bank of Canada help to finance that?

(*English*)

How can the Bank of Canada finance the construction of schools when the schools belong to the provinces?

Mr. ROWAT: I am sorry, Mr. Chairman; I missed the question.

The VICE-CHAIRMAN: Mr. Clermont asked how could the Bank of Canada finance the construction of schools when the schools are under provincial jurisdiction?

Mr. ROWAT: This is a very good question. The point in question is this: In order to build a new school in any given municipality, under the present system we have to sell debentures. In my reasoning in this respect, it makes no difference whether the debentures are sold within your own province, in one of the other provinces, or even outside of our country. Thus I see no problem in municipalities borrowing from a municipal development bank at the cost of administration to build their school regardless of what province they may be in.

(*Translation*)

Mr. LAPRISE: In the event that the Bank of Canada would itself finance public developments, do you think that Canadian savings would be sufficient to finance private investments?

(*English*)

Mr. ROWAT: I hold the view, as I pointed out previously this morning, that the controlling factor of any additional money supply should be an inventory level of purchasable production. And assuming that the Bank of Canada created the figure that I used this morning, the x billion dollars—and I use the x as an unknown quantity—then this particular money, as I suggested a while ago, would go into a national credit account, and then go on to finance the other aspects of the municipal development bank and so on. I do not see that this would hinder; as a matter of fact I think it would stimulate private capital for the development of the commerce of our country.

(*Translation*)

Mr. LAPRISE: If I understand correctly, it would no longer be necessary now to apply outside the country to finance private developments. There would be more Canadian capital available for private enterprise. Is this correct?

(*English*)

Mr. ROWAT: I would assume this to be correct; however the determining factor of that would be the willingness of the Canadian people to invest their savings in the commercial side of our development.

(*Translation*)

The VICE-CHAIRMAN: Have you any other questions, Mr. Laprise?

(*English*)

If you have no further questions, I recognize Mr. Thompson.

Mr. THOMPSON: Mr. Chairman, I have three areas that refer specifically to the presentation this morning.

The first one is, and I quote from Mr. Rowat's presentation:

> —there is a national inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy—

Mr. Rowat said this was the crux of his presentation. He then went on to say that effective demand means money, of whatever form, in the hands of the consumer. My question comes back again to the question of Dr. McLean. How do you get that money out to private industry and commerce, you having explained just now what public capital is, as far as financing schools is concerned. Could you not clarify that somewhat? How do you get the money into the hands of the private sector of the economy.

Mr. ROWAT: To answer your question, Mr. Thompson, and thinking in terms of the basic principle which we agree on, the control of the expansion of our money supply, then, as I have stated in my brief, all additional monies created by the Bank of Canada would be allocated to a national credit account to be distributed to the people according to the will of the people, as expressed through their federal elected representatives, who make up the government of our country. Now if the federal elected representatives who make up the government of our country should desire to allocate a portion of this newly created money to be channeled through, for example, the I.D.B., this could be used to finance industry, if this was the desire of the elected members of the Parliament of the day and the Government of our country—and this would have to be the decision of the members of the day. In my opinion the important factor with respect to money created against production, is this. If I could illustrate the negative side of this to show the dangers, when you have the Bank of Canada loan, for instance, a million dollars to Mr. McLean, other than through this channel you would find that there would be a surplus of money for the amount of goods that is available which would be undesirable and would not be much of an improvement over the present condition. On the other hand, if you took the money that came from the Bank of Canada, created against our production, which first of all appeared in the national credit account then, Mr. Thompson, it would be the decision of the members of the day and the government of the country to send it out through the I.D.B. to finance the commerce of our country.

Mr. THOMPSON: I do not mean to read anything into Dr. McLean's question, but I imagine his problem has been getting credit because we are in a period of restricted credit at the present time, and this is what is holding much of industry back. You mean to say then that he would go to the I.D.B. to get it.

Mr. ROWAT: The I.D.B. is in operation now, and I do not know any reason the I.D.B., being a part and parcel of the Bank of Canada, if they so desire, could not grant him the loan at the present time.

Mr. GILBERT: Mr. Thompson, I wonder if I may ask for an opinion. Would you suggest that he go to one of the chartered banks for the loan.

Mr. ROWAT: I want to clarify a point before answering your question. I assume that you were projecting into the time when the solution that I have proposed would be in operation. I see no reason for there not being sufficient private capital in the hands of the chartered banks and other financial institutions to fulfil his desires if he wanted this. But today—and I am going to use today as an example and project it to tomorrow—we find cases where people go to the chartered banks for money, and the banks claim the risk is too great, and they have to go to the I.D.B. to get it. I sometimes try to figure out why this condition exists. But I could see no reason, when you take the municipalities, which I could visualize, out of the borrowing market today, for there not being ample credit; there would be an expanded money supply because our inventory is higher than this given level that I suggested to you. I believe—and I have never had anyone being able to prove to me otherwise—that there would not be ample credit to finance this private sector of our economy with private capital.

Mr. GILBERT: At this projected time, would you be demanding from the chartered banks a 100 per cent cash reserve or just the eight per cent.

Mr. ROWAT: I had hoped that you would read into my brief—and I would like to clarify this for the members present and others—that at this moment of time all that would happen is that the chartered banks would not be able to expand their bank credit, which they have already done—and I use figures to verify this; they would not be able to expand any more or create any more bank credit, as Mr. Coyne says, "out of nothing". They would not be able to do this in the future. Any addition to our total money supply would be dollars coming from the Bank of Canada. Does this answer your question, Mr. Gilbert?

Mr. GILBERT: I thought you suggested that at the ideal time, when your scheme was put into effect you would be demanding that the chartered banks have 100 per cent cash reserve. Now how can Mr. McLean get his million dollars if you are demanding the 100 per cent reserve?

Mr. ROWAT: I think, if you read my brief, you will find out that I am not demanding the 100 per cent reserve at this moment of time. If you remember me being quoted correctly this morning, I said that at some time in the distant future it would be the ideal situation to have a complete 100 per cent cash reserve, at which time the Bank of Canada then would become the sole creator of our total money supply. I also stated this morning that it took approximately one hundred years to get us into this particular situation—that is, as nation Canada—and I would think that it would be not unrealistic if we can get out in fifty years and get back to what would be the ideal situation, Mr. Gilbert.

Mr. GILBERT: I am sorry Mr. Thompson; I have just one short question.

Suppose Mr. McLean is to live another fifty years—and he certainly looks as though he will—he wants a million dollars, and your scheme has been put into

effect; how is he going to get the million dollars from the bank if you are going to demand that the banks have 100 per cent cash reserve.

Mr. ROWAT: This gives me an opportunity to clear up another point that may have been misunderstood this morning. In the wind-up of this morning's discussion we were making reference to the fact of you being a credit union and myself buying certificates from you and giving you my million dollars. I do not see any reason that you, in turn, could not take this million dollars and go over and loan it to Mr. McLean. But I may have left the wrong opinion in the minds of some people. I did not say—and I want this clarified—that the banks would become credit unions. However, I did say that their operation would have to alter from its present arrangement.

When this particular scheme starts to come into being—and I am using the words "starts to come into being" because I have emphasized it and I cannot emphasize it too strongly, it has to be a slow conversion and a slow roll or our economy could become terribly upset. I think I made the point this morning that if we had an automobile and wanted to store it in a garage, we would be expected to pay demurrage charges on it, and I think that if I go to the chartered banking system, put money on deposit and just want them to keep it there for me—and they are not able to reloan it—I should be required to pay them a demurrage charge for the service that they have rendered. However, on the other hand, if I were to take it, as is happening in some of the chartered banks today, and buy bank certificates with my money—now, they are already starting into this, Mr. Gilbert—in reality what I have done is exchange my money for bank certificates; the bank can then do what they like and loan it to Mr. McLean if they desire to do so.

Mr. GILBERT: Your are not imposing that 100 per cent cash reserve on me because you have given me your million dollars and I give it to Mr. McLean. Now where is my 100 per cent cash reserve.

Mr. ROWAT: Let me suggest to you that there is a great misunderstanding in this terminology of cash reserves. First you are talking of cash reserves as it applies to the chartered banks and now you are talking of cash reserves as it applies to credit unions There are two different definitions here. Instead of you being the credit union I am going to change you to the chartered bank that has already implemented the idea of selling bank certificates—and I think this is a good idea; I go in and I buy a million dollars of your bank certificates. Now you have my million dollars and I see no reason why, because it is yours, that you cannot turn around and loan it to whomever you wish and of course you take the risk with capital. Does this clarify this, Mr. Gilbert.

Mr. GILBERT: This is much the same as the near-banks are doing now.

Mr. ROWAT: I am not in the position to argue if this is or is not what the near-banks are doing now.

Mr. GILBERT: It is not only the near-banks but the credit unions, the caisses populaires; this is what they are doing.

Mr. ROWAT: I made the statement this morning and I would like to repeat it: I have never seen evidence that showed me that any of these near-banks are actually increasing our total money supply. I have been told this, but it has never been proven to my satisfaction that this is correct.

Mr. GILBERT: Thank you, Mr. Thompson, for allowing me to put those questions.

Mr. THOMPSON: Now I can ask a supplementary to Mr. Gilbert's question, Mr. Chairman. Am I correct in making this statement: what you are saying then is that as public credit comes into play in the economy the bank requirement reserves will increase until some time in the future they will reach 100 per cent?

Mr. ROWAT: In essence, you are correct. Let us take the illustration at this moment of time that the chartered banking system—and remember I said this morning that I spoke of the system and not of any individual banks—is operating at its maximum, that is, at its 8 per cent cash reserve. Now if you take this as the condition that exists at the present time, and you also take into consideration that the Bank of Canada is going to be called upon to create this 1X billion dollars that we have been referring to and putting it through the national credit account into the economy of the country, as soon as this happens then the chartered banks are not able to increase their bank credit. Then the cash reserve ratio of the chartered banks certainly does change and it will no longer be an 8 per cent cash reserve. It will start to rise gradually.

But, in winding this up, Mr. Thompson, I may state that you could never bring the chartered banks to 100 per cent cash reserve by this method. Some time in the future—and this again is not in the 50-year period that I spoke about, Mr. Gilbert, it would be sometime between now and that 50-year time —you are going to have to take still other measures to reduce the amount the chartered banks have already created, because as long as they have one dollar of bank credit which is making up part of our money supply in circulation in our country you would never be on 100 per cent cash reserve.

Eventually—and as I suggested, it might be 50 years, but you have to start from where you are—there would have to be other changes made in order to get to this 100 per cent cash reserve in the period I suggest of possibly 50 years, which is a long time in the future, and I see many things happening, Mr. Thompson, before that becomes a reality.

Mr. THOMPSON: Mr. Rowat, we all are very interested in the cost of living increase as are all Canadians. You make a statement on page 6, article 31 of your presentation.

Mr. ROWAT: Is that the first or second presentation?

Mr. THOMPSON: The second. You said that the chartered banks can make a gross yearly profit of $66 on $100 of Canadian currency deposited with them for safekeeping. Would you elaborate on that? That is pretty expensive money.

Mr. ROWAT: Yes, I would be pleased to elaborate on it, and at this time I will have to turn to the Chairman for some direction here, Mr. Thompson. I inquired of our Clerk yesterday whether it would be possible to use a flip chart in order to explain a given point and this would be the case in question, Mr. Thompson. I would like to be permitted to set up a flip chart which I have at the back of the room in order to be able to answer your questions and show you the manner in which this action comes into being. If permitted, I would do so. If not, I will try to do it by way of a verbal explanation.

The VICE-CHAIRMAN: I think it would be better that you try to explain to Mr. Thompson without having any charts.

Mr. ROWAT: Very well.

Mr. THOMPSON: Very briefly, Mr. Chairman.

Mr. ROWAT: Very well. In order to be able to do this I am going to have to use the illustration that I used with one of the top economists of one of the chartered banks a number of years ago, and he confirmed my statement to be correct. It was reconfirmed to be correct by the research department of the Bank of Canada. May I have your assistance, Mr. Chairman?

The VICE-CHAIRMAN: Yes.

Mr. ROWAT: You, Mr. Chairman, and I now have become personal friends and we will allow Mr. Gilbert to become the representative of the chartered banking system.

Mr. GILBERT: Mr. Chairman, that is a dubious honour.

Mr. ROWAT: Well if you do not wish to assume the responsibility maybe one of my friends in the back who are bankers could assist. At any rate, to illustrate the situation as it exists today and to answer Mr. Thompson's question, the Acting Chairman and I being personal friends go in to see our friend, the banker, who is representing the chartered banking system. At this moment of time I am in need of a $1,150 loan. But my banker friend says to me: I cannot lend you any money; I am loaned to saturation. And there is a point, as bankers well realize, of saturation beyond which they cannot extend bank credit or loans. At any rate, at this moment of time my friend speaks up and says: I would like to help Mr. Rowat out but I have not got $1,150. You, as the banker, ask him: "How much have you got? He says: I have only got $100. Now your next question to him is all-important: Have you got this $100 in dollar bills, Canadian currency? His answer is: Yes. Your next question is: Are you prepared to deposit this with me as a savings as long as I help out your friend? Your answer, again, is in the affirmative. Now the first transaction that appears on the ledger sheets of the chartered banking system is that their cash reserves increased by $100 because he gave you $100 of Bank of Canada notes. You also show on the liability side of your ledger that his personal savings has increased by $100. You, in turn, say to me: Now give me a note for $1,150 and I will put that on the asset side of our ledger and I will credit your bank account with $1,150, which I, figuratively, would do. Now Mr. Chairman, I say: But just a moment, you cannot do that; you only a moment ago could not loan me any money and now you have loaned me $1,150, and this is not right. You come back and say: But, this is right because if you look at this one transaction you will find that the sum total of the deposit liabilities in the two cases total $1,250. But the bank which has so graciously given it to us says that we only have to have 8 per cent of our deposit liabilities in the form of deposits with the notes of the Bank of Canada, 8 per cent of the $1,250 which appears as a deposit liability is the $100 which the Chairman gave to you as personal savings which made the whole transaction possible.

Now, gentlemen, this has been confirmed, as I said, by a late leading economist of one of the banks, and it has been reaffirmed by the research

department of the Bank of Canada as being accurate. Mr. Thompson, does that answer your question?

Mr. THOMPSON: Yes. What you are saying then is that the cash reserve system provides them with this bank credit which is actually the creation of new money? Is that what you said?

Mr. ROWAT: I would be inclined to quote my brief, and in quoting my brief I would be quoting Graham Towers when he was Governor of the Bank of Canada, when he said: "Banks do not lend money; they lend bank credit as a substitute for money." It would be this bank credit which becomes part and parcel of our total money supply that I would be referring to. Does that again answer your question, Mr. Thompson?

Mr. LAMBERT: I have a supplementary question. Would you agree, though, that if it were not for the 8 per cent statutory reserves that are called for that the bank could, in practice, operate on a 5 per cent basis, that you could make it 20 per cent and that this is merely a case of the rolling of credit—the same way you operate yourself, unless you operate on a straight cash basis. Everybody to whom you owe money does not call upon you at the same time to repay.

Mr. ROWAT: Well, as was pointed out in my brief and the discussion I had with a senior member of the federal government when I presented this particular question, it would be a catastrophe of the worst kind, sir, if we all decided to withdraw our savings from the chartered banks at one time. If you think that Prudential is bad or that Acceptance is bad, this would be of the worst nature that I can even imagine.

Mr. LAMBERT: Well, are you telling us anything new? The same thing would happen to the treasury branch of the Province of Alberta.

Mr. ROWAT: I am not arguing for the treasury branch in the province of Alberta, sir. I am trying to defend the brief I have before the standing committee.

Mr. THOMPSON: I have one more question and again it comes back to this cost of living factor. I quote from your brief:

> Canadians...are paying interest...on approximately 80 per cent of our total money supply, which...the chartered banks, created...

Is there an alternative for this?

Mr. ROWAT: An alternative for this, yes. By putting the proposals that I have suggested into being and projecting it 50 years into the future, as I suggested to Mr. Gilbert, when this would become an idealistic situation, then you would find out that Canadians would not have to pay interest on any of the money supply. All they would have to pay would be carrying charges of the administration of the Bank of Canada because the Bank of Canada is an instrument of the government of Canada.

Mr. LEBOE: I have a supplementary question.

The VICE-CHAIRMAN: Yes, Mr. Leboe.

Mr. LEBOE: Is it your opinion that this is borne out by the fact that the Bank of Canada today owns about 16 or 17 per cent of the national debt and that the money accrued from that ownership is returned to consolidated revenue?

Mr. ROWAT: Your statement is accurate; the revenue gathered from the interest on the government of Canada securities held by the Bank of Canada is returned at a given moment of time in the year—I do not know what time their fiscal year ends—to the consolidated revenue fund. The only amount that is retained by the Bank of Canada is the cost of administration. I argue that this should be the basis of our entire money supply.

The VICE-CHAIRMAN: As no other members wish to ask questions may I thank you, Mr. Rowat, on behalf of every member for the ideas you have presented with conviction to us. I cannot say that you have convinced every member but we will have a further opportunity to look at your brief. On behalf of everyone I thank you very much for appearing before us.

Mr. ROWAT: Mr. Chairman, it has been a privilege to be able to appear before this standing committee and I trust that my ideas will be a contributing factor, be it minor or major, in improving the economic conditions of Canada.

The VICE-CHAIRMAN: Thank you very much.

Gentlemen, I now will call on Mr. Harry H. Hallatt from Scarborough, Ontario to present his brief. Mr. Hallatt, as you may know, witnesses are allowed to give only a summary of their briefs, which will be followed by questions from members.

Mr. HARRY H. HALLAT (*Scarborough*): Mr. Chairman and honourable members—

Mr. GILBERT: Mr. Chairman, I wonder if you could tell us of Mr. Hallatt's background.

The VICE-CHAIRMAN: Unfortunately, I have nothing regarding the background of Mr. Hallatt. Perhaps he can tell us.

Mr. HALLATT: Just tell him that I am a hired and retired businessman.

(*Translation*)

Mr. LAPRISE: Mr. Chairman, we do not have the French interpretation at this moment.

The VICE-CHAIRMAN: Sir, could you please ascertain this?

(*English*)

Mr. HALLATT: Can you hear me all right?

The VICE-CHAIRMAN: Yes; please proceed.

Mr. HALLATT: May I refer to the brief itself, Mr. Chairman? I happened to be in Ottawa at the time of the meeting of the Commonwealth Parliamentary Association, and I took the occasion to talk to two or three of the members who were interested in my proposals, and it was suggested that I prepare a brief for this Committee. I had only a couple of days in which to do it. I sent to all of the members a copy of this little brochure, "Our Dual Economy", and I just typed out a few introductory pages which your duplicating department, through your efficient secretary, was good enough to duplicate. I thought they might serve as a summary of what I have to say. Any brief that I would have prepared would have been substantially the same as this little brochure.

This, I may say, is just a digest of what I have been talking about, as the brochure says, since the stock market crash in 1929.

I have spoken to your Chairman about my having a little angina trouble, and sometimes under emotion I may have to take a little time. He has kindly consented to read a part of it and I think I will be able to get along all right. I find that I lack a little oxygen, and reading does take a little more than I sometimes have; so I ask for your indulgence.

I do not think I shall read the preliminary remarks in the introductory pages. You have heard a great deal about the banking—

The VICE-CHAIRMAN: May I remind you, Mr. Hallatt, that your brief has already been distributed among the members of the Committee. They have had an opportunity to read it. If there are any particular parts of your summary or of your brief that you would like to have read I will do it for you.

Mr. HALLATT: Yes. What I was going to say is, that I do not think it is necessary to read the introductory pages. There are two pages on this discussion, and one refers to our present banking system and any proposals we might make to improve or change the administration of our banking system in order to obtain the results that some of us feel can be obtained by such changes.

You have heard a great deal about the present system and the proposals outlining what can be done, and perhaps, Mr. Chairman, you might read the first three or four pages. This is a digest of what I believe is the crux of our problem, and I would like to listen to someone else read them.

The VICE-CHAIRMAN: I have read those pages already, but perhaps I can summarize them. You are proposing that there be two kinds of banks: the national banks that will take care of the administration of all public enterprises, construction and buildings, and the other banks in our system that will take care of private business.

Mr. HALLATT: I am afraid that you do not have it quite right, Mr. Chairman.

The VICE-CHAIRMAN: Well, perhaps I had better read it.

Mr. HALLATT: If you will, because I think it is important. Thank you so much.

The VICE-CHAIRMAN:

> All of our economic problems and most of our social problems are due primarily to the failure of our political, educational, and business leaders to perceive that we have developed a dual public and private enterprise economy, and that these enterprises must be financed on different bases.
>
> Popes and poets and politicians have decried usury down the centuries, but it has remained for me to devise a system of separating the financing of public enterprise and private enterprise whereunder public works and housing, which are no part of our private production and private service structure, will be financed at the administrative cost of such financing, and private enterprise will be financed with private savings on a competitive basis.
>
> Happily the economies of truly democratic, private enterprise countries lend themselves perfectly to a system of using the commonly owned units of durable wealth and housing as bases for all needed money, which can be issued and recalled on a sound amortization basis at a small fraction of one per cent per annum.

This new idea, this new system of financing will enable us to provide public utility facilities by paying for them once, not over and over in high, unnecessary interest charges every few years, and will enable every family to own a comfortable home by paying for it also only once.

The financial facilities necessary for the administration of this new system are now in operation—the central bank, the financial departments of our federal, provincial, and municipal governments, and our private banks. Nationally, no new financial institutions are required. Internationally, we need only an International Clearing House.

The private banks will then become exactly what the private bankers have always represented them to be, and what the people have always understood them to be, namely, repositories for the savings of the people, and money loaning and money transfer agencies, but they will cease to be money manufactories.

Change in banking practice

The one slight change in banking practice that will be made in putting this new system of financing into operation is that the central bank will create all the money required. Issuing money for the financing of all public enterprise capital projects and for housing will provide ample money for all purposes.

Instead of the private banks creating and cancelling money a half dozen to a dozen or more times for each item of goods produced, as it is processed to completion, our money will be issued by the central bank for financing the construction of completed, essential, durable units of wealth —our homes, schools, hospitals, water and sewer works, power, lighting, transportation, and other public utility capital projects—and it will be cancelled on a safe and sound amortization basis.

Our money supply will automatically expand as our economy expands. Not a dollar will exist that does not have sound national wealth backing, and everyone will know from periodic statements of our national affairs exactly what is behind our dollars.

Perhaps I should now ask if there are any members who would like to ask questions.

Mr. HALLATT: There are only a couple more pages. I think they are important. Perhaps I could help a little now.

The VICE-CHAIRMAN: Yes, go ahead.

Mr. HALLATT: The change over from private bank—

The VICE-CHAIRMAN: Mr. Hallatt, this brief will be printed in the record and it has already been read by every member. I do not think I should allow you to read all your brief—

Mr. HALLATT: I just wanted to read the balance of this plan; but I accede to your ruling, sir.

The VICE-CHAIRMAN: I can read it if—

Mr. HALLATT: Whatever you wish to do, sir.

Mr. LEBOE: It may be just as well to take a minute or two to finish it.

Mr. HALLATT: I shall go on for a page or two.

Mr. LEBOE: How many pages are left?

Mr. HALLATT: Just two pages.

Mr. LEBOE: Rather than talk about it let us have it read.

Mr. HALLATT: This is the general plan. I wanted to refer to the index, as well.

The VICE-CHAIRMAN:

The easy change over

The change over from private bank money to national money can be made without adversely affecting our private financial, production, distribution, and personal service activities in any way. Indeed, it can be done with immediate gain for everyone. There will be employment for all willing and able workers. There will be an immediate increase in production, which will mean more of everything for everyone. Poverty in the midst of plenty will cease.

The central bank, in co-operation with the financial departments of government at all levels, will issue money to retire all internally held government bonds and debentures, and mortgages on ordinary homes, at the real value of such securities, and to finance all future public enterprise projects, and all future housing of a standard commensurate with our attained standard of living. Each branch of government will be entitled to issues of its requirements of money for these purposes in accordance with, and to the extent of its ability to retire, on a safe and sound amortization basis, all such advances made to and through it.

The original issuance by the central bank of all money needed to finance public utilities and housing, and its automatic withdrawal on a sound yet flexible amortization basis, will be front page and daily broadcast information for all citizens. Maintaining economic stability cannot be more simple. Instead of trying to maintain economic stability by manipulating the interest and tax rates, slightly increasing the rates of amortization of the bases of the money supply will reduce spending and increase public property and home ownership—not profits to the money lenders. To induce spending, the rates of amortization can be lowered. Taxes will be levied as always intended to pay for current services.

In making the change from private bank money to national money, the private banks will arrange with depositors of national money to borrow it on bank debentures redeemable at times stipulated therein, and will exchange it for deposits of money they created, which they will then cancel as they now cancel such money when it is paid into a bank by a borrower to pay off a bank loan—the reverse process of creating such money. The banks now borrow money they created. They will pay off such loans with loans of national money, and cease the private manufacture of money.

The new national money cannot be cancelled by the private banks. It can only be cancelled by being paid into the central bank in amortization of the bases of the national money supply.

Do I need to read the other paragraphs?

Mr. HALLATT: I would like to read them, if you do not want to. I am in your hands, sir. I think it is important that the plan be read.

The VICE-CHAIRMAN: I will do it.

Procedure not inflationary

The increase in the primary money supply resulting from the national issuance of the volume of money required to retire the bonds and debentures, and mortgages on homes, as above mentioned, will not cause inflation. These documents are secondary moneys. The people who hold them could spend them now as easily as they will be able to spend the money they will get for them. Actually there will be less paper purchasing power in existence when the bank money, government bonds and debentures, and privately owned transferable mortgages on homes are cancelled. These secondary moneys have a built-in inflationary gadget—high, unnecessary interest—which doubles their purchasing power every few years without effort by or risk to the holders, and without production.

But it is not the amount of money in existence that is of first importance in maintaining economic stability, contrary to the brainwashing the money dealers have given us. It is the amount of money put into and kept in circulation to finance the production of needs and wants that determines and regulates the price level.

The situation will be that we will have to guard against a deflationary trend because hundreds of millions of dollars of interest will be cut off. People will not spend their savings as freely as they now spend the unearned interest on bonds and debentures. This was the case in the depression of the thirties. There was enough money in saving deposits to have caused wild inflation if the people had spent their savings freely. But people acquire a habit of saving. Frugal people spend only part of their income normally. When earnings are down they curtail spending.

And let no one trot out "the flight of capital" bogey when we cut off opportunities for private investment in public enterprises, and in mortgages on homes. Canadian dollars are claims on Canadian goods only. If we can control our imports and exports, and we must control them, we can control the exchange medium, as we did during the war, as we are now doing, and as we must always do in managing the economy. Stability will not be a problem when we put an end to the private creation of money.

Mr. HALLATT: Are you short of breath? There is another page.

The VICE-CHAIRMAN: I think we have read enough to know what are the basic ideas.

Mr. HALLATT: Let me read one thing. We are all the same, we people, and I understand, and am told on good authority, that early in the year you are going to get rid of those funny money men so that you can get down to business. I heard that from one of the reporters.

I want to read just one thing, and I want to impress upon you the importance of what I am doing, as my two predecessors did. I am going to answer all your questions on any subject in connection with your terms of reference, that is, in connection with finance, trade and economic affairs, but here is a little something to all humanity, that noted:

> I consider "Our Dual Economy" to be one of the most important documents ever written.

This was by an intelligent man and one whom I consider to be one of the most intelligent I ever talked to.

I am ready for any questions you may have on any subject in connection with our economy and our finance.

The VICE-CHAIRMAN: Well, it does not seem, Mr. Hallatt, I do not see any member signifying his intention to ask questions. Mr. McLean?

Mr. MCLEAN (*Charlotte*): I heard you say that this would do away with poverty in the midst of plenty?

Mr. HALLATT: That is right.

Mr. MCLEAN (*Charlotte*): How are you going to do away with poverty if people will not work?

Mr. HALLATT: When I addressed the banking committee of the Liberal party here 35 years ago Mr. Euler asked me that same question. My reply was that I had been an employer of labour for a long time and that I had not come across very many people who would not work if they had an opportunity. Henry Ford always emphasized the need for people acquiring the habit of work. I asked Mr. Euler, "You are a manufacturer. How many people do you know who will not work? How many of your employees would not give a good day's work?" I said, "You may have some". I started to work when I was 8 years of age, at 4 cents an hour. I worked with men on the extra gang on a railroad when I was 12 years old. I was a conductor on a railroad at 20 years of age. I worked in a brick yard, and I worked opposite 3 or 4 men all the time. In other words, I did as much work as they did, digging with a spade.

I have never found people, sir, who have acquired a habit of working, not trying to keep up their end. Now, there are a few, one or two perhaps, but not 1 per cent. There are one or two in a thousand who will not work if they get the opportunity. I do not agree that that is the situation in Canada, or any place else. People must have an opportunity. That is all I am asking.

Mr. MCLEAN (*Charlotte*): Well, there is opportunity, but there are a certain number of people, I have found, who do not want to work. How would one take care of them?

Mr. HALLATT: Well, how many have you found? Can you take out your—

Mr. MCLEAN (*Charlotte*): Oh, I am not asking you how you are going to take care of the people who do not want work—

Mr. HALLATT: Cannot work, or will not work?

Mr. MCLEAN (*Charlotte*): Will not work; they do not earn anything, or just enough to get by—work a day or two a week.

Mr. HALLATT: I would say that that is not my responsibility. It has nothing to do with—

Mr. MCLEAN (*Charlotte*): We are certainly going to have poverty. Some of these people have children.

Mr. HALLATT: Give them an opportunity and I am satisfied that they will work. There is no reason why they should not. I do not agree with your premise, sir, that people will not work even if they are given an opportunity.

Mr. MCLEAN (*Charlotte*): Some people will not.

Mr. HALLATT: Get them into the habit of working. Have work for them from the time they grow up, or from when they are children. They will work.

Mr. MCLEAN (*Charlotte*): All right.

Mr. HALLATT: I do not agree with you, sir, that that is a problem.

Mr. MCLEAN (*Charlotte*): You say that you have worked since you were 8. I was an accountant in a bank when I was 18, and I have worked all my life. I know something about work. We employ a lot of people. But there are a few people who do not want to work.

Mr. HALLATT: Are those our only problems—that there are a few people who just will not work?

Mr. MCLEAN (*Charlotte*): I would like to know how you are going to take care of them. I notice you say here that we have learned that money is not, never was, and cannot be, gold or silver.

Mr. HALLATT: That is right.

Mr. MCLEAN (*Charlotte*): Well, why could it not be gold?

Mr. HALLATT: Because, sir, you cannot express value in a substance—in a commodity.

Mr. MCLEAN (*Charlotte*): Do you not express values in wheat and copper?

Mr. HALLATT: No.

Mr. MCLEAN (*Charlotte*): If copper is worth so much and you have an inventory of copper is that not worth so much?

Mr. HALLATT: You are not expressing values in anything but a price language. If you want to exchange one with the other, you will barter, but you cannot even barter without using numbers—price language: Two of this for three of that. Money was never anything else. You go to the bank because you want to borrow some money—a few million dollars, if you like—and you find that the bankers just write up some numbers in a book—

Mr. MCLEAN (*Charlotte*): I am not worried about that—

Mr. HALLATT: You are not giving me a chance to explain, sir.

Mr. MCLEAN (*Charlotte*): I know all about that. The one I want to know about is gold. There are so many fine grains of gold, and there is a price put on it.

For an ounce of gold the price is 35 American dollars. Is that gold not worth $35.00 if a person buys it for $35.00?

Mr. HALLATT: That is not the question you asked me. We arbitrarily fix a price of $35.00.

Mr. McLEAN (*Charlotte*): But if the purchasing power of those $35.00 goes down should not the price of gold go up, as it would of wheat, or copper, or anything like that?

Mr. HALLATT: You are completely off the point that you were making, so far as I am concerned.

Mr. McLEAN (*Charlotte*): No, I am trying to make a point here.

Mr. HALLATT: I will have to ask you to go over it again, because you have left the point entirely.

Mr. McLEAN (*Charlotte*): You say here that gold could not become money, or anything like that.

Mr. HALLATT: No substance can be money.

Mr. McLEAN (*Charlotte*): I say it can. If you put a value on it and keep that value in relation to your paper money then you have a value; and as the value of your paper money goes down the value of your gold goes up.

Mr. HALLATT: Would that not apply to bricks or anything else?

Mr. McLEAN (*Charlotte*): Yes, certainly, Mr. Hallatt. You say that bricks can be money?

Mr. HALLATT: Why cannot it apply to your money, then, and you could give it some value.

Mr. McLEAN (*Charlotte*): We have had issues of paper money. We had it in France and in Germany and all over the place, but they always come back to something that they can regard as stable. The people of the word generally claim that gold has a value.

Mr. HALLATT: That has got nothing to do with money, sir.

Mr. McLEAN (*Charlotte*): Yes, it has, if you attach it to the money.

Mr. HALLATT: Well, I do not agree. Are you saying that any commodity can be money?

Mr. McLEAN (*Charlotte*): Any commodity can be—

Mr. HALLATT: We have had salt, we have had beads, beaver hides—

Mr. McLEAN (*Charlotte*): Anything that can be turned into money.

Mr. HALLATT: Anything that can be turned into money is money?

Mr. McLEAN (*Charlotte*): Here in Canada you have a bill and you turn it into commodities. Why can you not turn commodities into money?

Mr. HALLATT: I cannot argue that way, sir. If any commodity can be money then there is no reason for my being here.

Mr. McLEAN (*Charlotte*): Well, it must be money, because we do not have value behind our bills. We issue these bills.

Mr. HALLATT: Well, if that is the kind of question I am going to be asked I am helpless. If any commodity can be money, then—

Mr. McLEAN (*Charlotte*): We have silver and gold. We had the silver in the United States. We had the silver dollar—

The VICE-CHAIRMAN: Mr. McLean, please; you have had the opportunity of asking questions of the witness and if he says that he does not agree with the premise of your questions, then I do not think you should argue with him. We will not go any further with that. Mr. Thompson?

Mr. THOMPSON: It seems to me, Mr. Hallatt, that one of the problems that we face today in our present monetary system is the constant deflation of the value of money. What would your system do in regard to providing a stable dollar? By that I mean a dollar that is a dollar today, or next year, or 10 years from now? Do you have an answer to that problem?

Mr. HALLATT: I do not say, Mr. Thompson, that the value of the dollar, in terms of international exchange, would never change, or anything of that kind; but the value of the dollar is something that we have to arrive at arbitrarily; and insofar as international exchange is concerned we have to establish a ratio of the values of the different currencies.

Mr. THOMPSON: I am speaking locally, though. I am not thinking of international affairs.

Mr. HALLATT: Yes, I quite understand that. But one of the reasons for our constant inflation is, of course, the increase in the money units in terms of numbers that we put on the hours of labour, which will be reflected in the prices of the things that we produce.

Another thing that is contributing to our terrific, constant inflation, of course, is the high cost of money. We are using the interest on money—taxes—to control the economy—to say whether men shall work or not, whether we shall put men out of work to control the value of bonds.

If you remember, Mr. Thompson, back in 1952 Mr. Towers testified to the fact that controlling the price of bonds and of money, labour and production, was like driving two horses not in double-harness. He went on to explain that what was happening then was that they were trying to restrict credit, as they are doing now with the so-called tight money. Of course, there is no such thing as tight money; it is a misnomer. In order to protect the price of bonds they asked the banks to restrict credit. First they tried open market operations but that did not work, because so many of our large industries had money and they were lending it to the government on treasury bonds. Then the cash reserves did not work.

The only thing he could do, as he admitted in his testimony and it is in the record—was to call the bankers together and ask them to restrict credit. They could not do anything with the large corporations, which had lots of money, but they could do something with their customers—the farmers and the small business people. People used to come into my office and say that they wanted to buy farm machinery and so on, but that their credit had been cut from five thousand to one thousand.

In that way they were able to restrict credit—put people out of work—but they had to arrive at a balance so that the values of bonds would be maintained. That was the big problem at that time. As he said, it was like driving two horses not in double-harness. He said that maintaining the value of bonds tended to have priority. In other words, it tended to have priority over keeping people working. It was necessary to stop this boom, with everybody working and

making money—it was necessary to stop people from getting into that to the point where the price of bonds would go down and people would be taking money out of bonds and putting it into production. In order to stop this—and this is Mr. Towers' testimony—they had, in effect, to put people out of work—had to restrict credit to the small business people—in order that they would not be selling their bonds and going into business.

That happened. That is in the record, if you want to read it. I wonder if I am getting somewhere—

Mr. THOMPSON: I was just reading your statement in the last line of page 9 where you say:

> Money is only a certificate for—a claim on—production.

Mr. HALLATT: That is right.

Mr. THOMPSON: Well, the dollar in 1967 is going to have a claim on less production than it did in 1966. The dollar that my father put away when he was able to save a bit of money for his older age is no longer a dollar. This was the thing I was concerned about, and I wondered what your opinion was about it.

Mr. HALLETT: Well, of course, we are all concerned about that. I think somebody said this morning that the banks are worried about all the billions of dollars of idle money; they have savings in the bank that they do not know what to do with. It is a problem with them now.

There is no use talking about tight money. There never was such a thing as tight money. There is no use talking about cash reserves. That has no validity at all. There is no use talking about having 100 per cent money. We have 100 per cent money now, and we have always had 100 per cent money. If anybody wants to challenge that I will explain it. The bankers will agree that we have 100 per cent money now. With regard to cash reserves, as one fellow pointed out, they are supposing. We talk about 8 per cent, and that if people have 8 per cent of cash the banks can create 11½ times that much money in credit. They create money. That is why money was never anything else but figures and numbers. It is all money. We do not need it in printed form. That is stupid, because they can do it with just numbers in a ledger. Nobody is going to go into a bank and ask for their money back again. There is no reason why they could not get it, because there would not be any more money in the country. It is not necessary. It is just stupid to talk about having it.

We have 100 per cent money now, and there is not a banker who will deny the fact that we have 100 per cent money.

So far as inflation is concerned, it is caused by ever-increasing wages and the high cost of money. My reading of this problem is that there has been failure to recognize that we have two economies—public and private. There is no reason in the world why the public sector should borrow money from the private sector—positively no reason. These things are supposed to service at cost. All of our hospitals, public utilities, schools, highways and public works are supposed to service at cost. Where is any initiative in clipping coupons for something people are supposed to service at cost. Why should anybody get a profit on a workman's home or on anybody else's home after it is built?

Now, gentlemen, think of it. Give the architect a profit for designing a better home; give the workman and the contractor a profit for designing a better home; but where is the initiative in private enterprise in getting interest on somebody's home after it is built?

The VICE-CHAIRMAN: Mr. Hallatt, you have had the opportunity of expressing your views. As I mentioned at the beginning, your brief will be printed in our report.

I would like to thank you, on behalf of the Committee, for your contribution and for having appeared here today.

I should advise the members that the meeting that was to be held at 8.00 p.m. has been cancelled. We will resume our sittings next Tuesday, January 17, with the Canadian Federation of Agriculture.

I declare this meeting adjourned.

TEXT OF 1966
BRIEF AND STATEMENT
by Frank O'Hearn
prepared for presentation to the
HOUSE OF COMMONS COMMITTEE
on
FINANCE, TRADE AND ECONOMIC AFFAIRS
re
BANKING LEGISLATION

PART I

BRIEF AND STATEMENT

to Chairman and Members
Commons Committee on Finance,
Trade and Economic Affairs;

I present this Brief and Statement so you may know just what proposals I am submitting for your information and consideration.

I wish here to thank you for accepting my Brief, and I request an opportunity to appear before you in support thereof.

I recall that back in 1954 I filed a Brief with both the Commons and Senate Banking and Commerce Committees, but they wouldn't permit me to appear before them to speak in support of my Briefs.

Since 1954, I filed a Brief in 1961 to the Royal Commission on Banking and Finance, and in 1965 I filed a Brief to the Royal Commission on Taxation, and I appeared before them in testimony thereof.

While the Royal Commission on Banking and Finance accepted my Brief for its records and let me appear before it, the Chairman wouldn't let me make any statement or speak in behalf thereof, nor did they question me about my proposals, all of which seemed strange to me at that time. Later however, the reason became quite clear, for the Royal Commissioners had decided to suppress the contents of my Brief, and with the help of a subservient Press, they succeeded in doing so. Hence, when the Commissioners issued their report without even mentioning the information I disclosed to them, I found it necessary to publish in May 1964 a pamphlet "The Secrets of Banking and Finance", being a critical appraisal of their report to discredit their obvious efforts to conceal the truth from the government and general public. And in 1965 I also deemed it advisable to publish a booklet "The Evolution of Banking and Money" summarizing my investigations and findings as conducted and developed over the years.

After considerable unwarranted delay, the government now proposes at long last to review The Bank Act in connection with the renewal of the Bank

Charters, and to recommend to the House of Commons just what changes it proposes be made in the Acts and Statutes governing banking operations for the next ten years.

Beyond all question, some basic changes must be made so we can avoid bungling along in the future like we've been doing in the past years. It's possible that this may be the last chance we Canadians will have to preserve our integrity and our nationality as an integrated federated nation, so it's up to Parliament to see that the proposed changes are all-sufficient.

I would here say that there isn't much point in making changes in the banking laws if the laws aren't to be properly enforced. I say this because I find that the banks at present and have been over the years, operating outside the existing laws. Our banking laws and statutes have not been properly enforced and they are not being complied with by either the Chartered Banks or our national bank, The Bank of Canada. They are acting as a law unto themselves. By brazeningly flouting the laws governing their operations, they have bedeviled the best efforts of the people of Canada, and have placed themselves and the Canadian people down in a deficit position, and rendered them unable to solve the various political, economic and financial problems confronting them.

In support of this statement, I beg to inform this Committee, and charge that the Bank of Canada is secretly making over $4 million in cash profits each and every day, and that worse still it grossly fails to report or turn this profit over to the Receiver-General of Canada, as called for by the laws governing its operations.

I charge that it extorts over $4 millions in cash day by day from the Chartered Banks and their customers and that it gets the money for free through trickery. It extorts used currency from the Chartered Banks without paying them for it. Moreover, instead of crediting the Receiver-General with the profit, or else returning the cash back to the banks it gets the money from or paying them for it, the Officials foolishly and illegally brand the cash money as worthless, and proceed to mutilate and burn it up at the expense of the government and people of Canada.

It burns up the four million dollars daily as if it is garbage instead of valuable legal tender. This it can do only because it gets the $4 millions daily from the Chartered Banks for free. If it had paid the Chartered Banks even exchange for the used currency it got from them for free they would now have the money and it couldn't very well be burned up without reporting a cash shortage.

Moreover, after burning up the unusable currency, the Bank of Canada didn't even replace it for itself from its new currency stockpile so it could pay the Chartered Banks for it, or credit the extra capital to the government.

The trickery and improper method used by the Bank of Canada, is to charge the Chartered Banks for double the face value of the currency it sells, lends or rents to them, and by subsequently collecting double from them, once from their deposit accounts and once again by return of the currency itself. It managed to

accomplish this fraud by making invalid transfers from the banks' deposit accounts to their loan accounts, concealing in this way, both their profits and liabilities accordingly.

The Bank of Canada resorts to the same kind of trickery when it purchases securities from the Chartered Banks or the public, the difference being that it issues its own cheque currency in payment for the securities instead of note currency. When it gets its cheque currency back by way of deposits however, it is mutilated and destroyed too. This has the same effect as if it also destroyed its own note currency, instead of reporting the recovered amounts as deposit assets or cash overdrafts.

I charge that by mutilating and burning up its own incoming note and cheque currency, the Bank of Canada officials actually and illegally destroyed the cash reserves of the Chartered Banks and the cash savings of the Canadian people.

While the Bank of Canada credited the Chartered Banks when it got its old note and cheque currency back from them, the Chartered Banks were entitled to those credits in order to adjust over-charges previously made against them by the Bank of Canada. Despite this fact, the Bank of Canada forthwith cancelled the credits by invalid debit charges. Hence, the tragic joker is that in this illegal and foolish way, the Bank of Canada left the Chartered Banks without either the credits or new currency needed to recompense them for the damaged currency they turned back to it for free.

In this way, the Bank of Canada officials prevented us from using our cash savings in lieu of taxes and bond sales or using them to pay off the public debt. In this way too, they manage to keep us enslaved in perpetual debt, and burden us with usurious interest charges, and deny us the capital benefits which would otherwise accrue to us from our banking and currency transactions. Obviously, if they had not mutilated and burned up the used currency they fraudulently extorted from us through the Chartered Banks, we would each be richer accordingly.

Inasmuch as the Bank of Canada officials have impoverished us in the foregoing manner over the years to a total of over $1,000 per capita, they have hamstrung our best economic endeavours, and have accordingly branded themselves as public enemies and saboteurs of our banking and money system.

To put it another way, I charge that our governmental borrowing authorities are continuously borrowing from the public and the banks, while at the same time, our chief financial agency, the Bank of Canada, is also continously mutilating and burning up valuable though unusable note and cheque currency by the millions day by day, on top of which it is hiding from public view billions in new note currency, all of which it fails to report in its financial statements and statistical data.

I further charge that at the same time, our taxing authorities are also continuously levying untold billions in taxes on us under the foregoing intolerable circumstances.

Bearing these things in mind, I contend that both the public borrowing and taxation are unwarranted and should cease and should have ceased long ago,

until such time as the currency being concealed and being destroyed by the Bank of Canada officials is properly accounted for, restored and used for public purposes, in lieu of the unwarranted borrowings and tax levies.

As to the Chartered Banks, they fail to report the $4 million daily loss, and they fail to charge the Bank of Canada for the money they turned over to it for free. I contend that they can do this only because they, in turn, make over $4 millions profit daily from their customers without reporting the profit. They can turn the money over to the Bank of Canada for free only because they get it from their customers for free too, cheating them in this way accordingly.

The Chartered Banks, using the same illegal methods employed by the Bank of Canada, likewise charge their customers double the face value of the securities they purchase from them and the money they sell, lend or rent to them, and then by subsequently collecting double from them, once by way of cash and again by way of transfers from their deposit accounts. They accomplished this fraud by making invalid transfers from customers deposit accounts to their loan accounts, concealing both their profits and liabilities.

Obviously, had the Chartered Banks not so cheated their customers, the customers would have made the $4 million daily profit instead of the Bank of Canada, and they could have then paid it to the Receiver-General direct. This is one way in which they could have properly recorded their banking transactions as they actually took place.

In further support of my charge that the banks are operating outside the existing laws governing their operations, I submit the following with regard to the manipulations of accounts and currencies by Bank of Canada and Finance Department Officials;

As I've already stated, the Bank of Canada is making a secret $4 million cash profit daily which they are withholding from the government and which, instead, they are mutilating and burning up at the expense of the Canadian people. They do so because either of their incompetence or their evil determination to keep us all in their devilish clutch. They destroy this public money while at the same time admitting it is worth its face value right up until they destroy it. They don't even offer any reason for their illegal actions.

This wholesale destruction of legal tender obviously causes a shortage in the assets of the banks, but the officials refuse to report their cash deficit. Moreover, they refuse to deposit or stockpile the currency, or to transfer new currency from their hidden stockpile to replace for free the money they destroy. The Bank of Canada and Finance Department officials get this money for free from the Chartered Bank officials and then mutilate it for destruction.

A prime example of this devilish mutilation of legal tender to be destroyed by the Bank of Canada officials and Finance Department officials is the case before the Vancouver Police Department and Courts regarding the theft of $1.2 millions worth as charged against Vancouver policemen et al.

Bank of Canada officials there testified in Court that the stolen currency they mutilated is still worth its full face value, and will retain its face value until it is finally destroyed by the Ottawa officials. They offered nothing to support their foolish claim that the valuable negotiable currency suddenly loses its value when it arrives at Ottawa. Their claim is obviously invalid and fallacious.

In this connection, I submit that Mr. Gordon Smith, Bank of Canada Accountant, Vancouver Office, mis-reported the receipt of the mutilated currency from the Chartered Banks, and its dispatch to Ottawa.

Mr. Smith deceived our government and Parliament by mis-reporting that the currency he mutilated for destruction was received from the Chartered Banks and paid for, instead of reporting that it was received from them for free, making it available in this way as cash reserves to be held for their benefit and for the benefit of the government and people of Canada.

Mr. Smith also mis-reported similar amounts as owing by the Chartered Banks to the Bank of Canada, instead of properly reporting it as amounts owing to the Receiver-General to provide the government with the new capital gains it is entitled to get for free from the Chartered Banks.

The Bank of Canada, by over-charging the Chartered Banks and subsequently collecting repayment for additional loans or advances it never made them, obviously doubled the cost of its currency to them. Moreover, our proposal to cancel and reverse the invalid debits will make it possible for the Bank of Canada and the Chartered Banks to provide the government with the costless credits it is entitled to get from them.

I submit moreover that it was an illegal and foolish act on the part of Mr. Smith to mutilate his bank's cash holdings. Having done so, he should now get the currency replaced and have it reported as a cash asset which it needs to offset its hidden liabilities to the government.

By his improper manipulations, Mr. Smith grossly falsified the Bank of Canada's books and records, and misrepresented its financial condition accordingly.

I charge too that the books of the Bank of Canada and Chartered Banks accounts and records have been falsified by similar manipulations by their accountants to a total of over $18 billions.

In support of this charge, I submit that the Chartered Banks over the years illegally turned $18 billions worth of unusable currency over to the Bank of Canada for free to be mutilated and destroyed and that they have nothing whatsoever to show for it in exchange. They even refuse to claim back the over-payments they made to the Bank of Canada.

The currency recovered by the Vancouver Police Department should have been safeguarded until the Courts decide to whom it really belongs and just what disposition of it should be made. It undoubtedly is public property—a Crown asset—in which each Canadian including the policeman has a beneficial interest. This stolen currency which the Chartered Banks extorted from their customers should therefore be treated as public property.

Inasmuch as the mutilated currency still retains its full face value and is legal tender beyond dispute though it has become unusable through wear and tear it should have been deposited right back by the Vancouver Police Department with the Bank of Canada who couldn't very well refuse to accept it for deposit in view of their testimony in the preliminary Court hearings.

This deposit of improperly mutilated currency should have been made for the account of the Federal Government to whom it undoubtedly belongs. The

proposed deposit would, however, place the money in the hands of the government officials not for destruction but to provide the government with a costless cash asset to be used for the benefit of the Canadian people.

The Bank of Canada and Chartered Bank officials must stop their present illegal practice of mutilating currency for destruction before it has been deposited or credited to the Government.

In view of the foregoing, it's clearly up to the Bank of Canada and Chartered Banks to forthwith correct this intolerable condition, in the public interest.

This they could have done by depositing the mutilated currency recovered by the Vancouver Police Department, as cash for the credit of the Canadian Government. The Chartered Banks could then have followed up by charging the Bank of Canada with all the other unreported amounts they turned over to it for free, and by then crediting the proceeds to the Receiver-General of Canada to provide the government with the costless new capital due it from their currency operations.

Even though the stolen currency may have since been delivered to the Mint and destroyed there, I submit that it should not have been mutilated or destroyed. It should have been deposited as legal tender for credit of the Receiver-General. The misguided policemen charged with the theft of the mutilated currency would have been better occupied by arresting the people who criminally mutilated it.

By implementing my proposal to salvage the amounts we've lost by their foolish and illegal actions, the government and people of Canada, and the banks too, will be automatically placed in a solvent and capital position, in place of the deficit position disclosed by the public accounts. The government's proposed war on poverty can't succeed unless our missing cash reserves are salvaged.

I here again stress the fact that the banks are flouting the laws governing their operations inasmuch as the present Act clearly indicates that despite all else therein, the banks must disclose their true financial condition. Regardless whether the banks may legally grow at the expense of the public, or whether they may legally or can actually invest their available cash reserves ten or twenty times over, which they pretend they may and can do, or whether their cash reserves should be recorded as assets by the Bank of Canada or as liabilities only, the fact remains that when they overinvest or go short of cash they must report their cash deficits accordingly in order to properly report their true financial condition as called for by The Bank Act. Hence, they must forthwith report cash deficits totalling over $18 billions, as well as their money profits for a like total so the gains may be credited to the Receiver-General. Hence, I find and must charge that despite the official signatures on their statements, and despite the certification of their auditors, and the general acceptance by everybody that their reports and statements are true and factual, their reports and statements, instead, are grossly false and fail to disclose their true financial condition, as called for by Law.

In support of this statement, I need merely to point out that neither the Bank of Canada or the Chartered Banks report any deposit assets whatsoever, though the Chartered Banks acknowledge having received over $18 billions in Canadian cash deposits from their customers, and having deposited over $18

billions in the Bank of Canada. Nor do they report any new capital increase from their deficit dollar transactions. They definitely are in a deficit and bankrupt condition, though they have successfully concealed this fact up to the present time.

My investigations reveal that our National Economy is hamstrung by their bad bookkeeping and bad monetary procedures. By grossly mis-managing our money supply, the erring officials have placed us all in a deficit position, though it should be quite clear to everybody that we can't run our private or public economy on a misplaced deficit basis forever. Cash settlements must be provided for so as to make our public and private debts repayable. Otherwise, national repudiation and liquidation will overtake us and drag us all down into the financial and economic abyss just waiting to engulf us all, because of our own folly.

Hence, all roadblocks to a beneficial change in our banking laws and practices should be removed, so as to free ourselves from our mounting deficits and debts. I therefore hope that the adoption of the essential and beneficial changes I propose will be implemented, and I hope nobody will fear them, and that everybody will see the necessity of putting ourselves on record in favour of them.

I must again stress the fact that the Chartered Banks do not report any deposit assets on hand. I submit the reason is that instead of safeguarding their deposit assets and cash reserves, they turned the cash they got from their customers by way of deposit or debt repayments, back to the Bank of Canada. By doing so, they settled their original indebtedness to it for the currency or securities they got from it. On top of this, they made additional repayments to the Bank of Canada by way of transfers from their deposit accounts that they had with it. By doing this, they paid the Bank of Canada twice over for its currency or securities. The fact is that the Chartered Banks got no assets of any kind from the Bank of Canada for the additional repayments they made it, nor does the Bank of Canada hold any of this cash in reserve for the Chartered Banks.

Moreover, the Chartered Banks cancelled their own and their customers cheque currency too, which cheque currency they had covered and redeemed in note currency at par value. By doing this, they destroy their own currency assets and cheat themselves and their customers out of untold billions of dollars in cash assets and capital gains they need to meet their own requirements. In fact, the Chartered Banks fell for the same kind of trickery that they pulled over on their own customers.

Hence, the Chartered Banks depleted their own cash assets and placed themselves in a deficit position, which deficit they omitted to disclose as cash shortages in their financial statements and reports. They successfully concealed and offset their bankrupt position by omitting to report a corresponding profit liability to the Receiver-General for the gains and new capital provided by their loan, sale or rental of their deficit dollars to their customers. As I've already stated, they got away with this fraud by improperly cancelling and wiping out deposit liabilities owing to their borrowing customers. They did this by way of

invalid debit charges against customers deposit accounts, which invalid charges the victimized customers foolishly paid, actually paying in this manner, for their bank borrowings twice over.

Again referring to the Bank of Canada, my statement that it made a capital gain of over $18 billions is confirmed inasmuch as it got a total of over $19 billions in assets at a cost of only $1 billion, and it did this without reporting this supply of new capital or paying it to anybody in exchange.

The reason the Bank of Canda was able to conceal its capital gains and profit liabilities is, I reiterate, that its officials are foolishly and illegally cancelling and burning up lawful Canadian money day by day, instead of returning it to its owners the Chartered Banks, or stockpiling it as cash reserves, and making it available for public spending in lieu of taxation or bond issues. In this way they illegally cause great loss and damage to our National Economy. They keep on burning up the legal tender, i.e., the cash reserves of the Chartered Banks and the cash savings of the public just as if it is garbage or refuse. Obviously, had they put it back in stock as cash on hand or had they returned it or deposited it right back with the banks they got it from and reported a currency profit, all would have been well, but they didn't do so. Neither did they report the deficit position they placed the bank in when they burned up their own cash assets.

I stated too that the Bank of Canada has a secret stockpile of unissued currency totalling billions of dollars, and I submit that it is illegally concealing and withholding this currency from the government and people of Canada to whom it belongs. I submit that this costless currency should be forthwith deposited as legal tender cash with its own Tellers to replace the used currency destroyed and should be listed and reported in its financial statements as a cash asset on hand, i.e., as cash held in reserve, so that the supply of new capital accruing thereby may be credited as currency profits owing to the Receiver-General. I submit that it is the mutilation, destruction, repudiation and loss of these excess amounts that the banks collect from their customers over and above the face value of the money they put out and circulate from their deficit position, that is the basic cause of our unsolved financial and economic problems. Moreover, the loss of its potential earnings further aggravates the intolerable situation.

The banks are of course, exceeding their authority in exacting double for their note and dollar currency without reporting the profit therefrom. They are conducting their operations on a paper basis instead of on the money basis called for by the laws governing their operations, and they foolishly make their own cash assets appear to be worthless. The Bank Act should be specifically amended to prohibit this illegal practice.

This illegal extortion and destruction of our money by the banks, and their disastrous double-dealing in our currency transactions should be prohibited by the revised Bank Act under penalty of imprisonment.

I reitèrate my charge that the Chartered Banks grossly cheated their own borrowing customers to a total of over $18 billions without reporting the capital gains they made thereby. Instead of turning the money or profits over to the Receiver-General as profits from their deficit dollar transactions, they did away

with the money and placed themselves in a deficit position, without replacing it or returning it, or reporting the cash loss or shortages in their statements and reports.

As I've previously stated, the Bank of Canada in turn failed to replace the unusable currency it destroyed and failed to provide the government with an inventory of the legal tender it holds on hand. It also failed to report the capital gains it made from the loan, sale or rental of its costless currency to the government and banks, and it also failed to turn either the cash or the profits over to the Receiver-General for the benefit of the Parliament and people of Canada. The officials instead grossly depleted our cash savings and reserves by a total of over $18 billions. By their illegal methods, they made this amount of valuable money appear to be worthless, and they brazenly cancelled or dumped this huge amount of public funds down their deficit-sinkhole into their incinerators, and burned it all up right in front of the eyes of an unsuspecting and gullible Canadian public without reporting the loss, cheating in this way each man, woman and child in Canada out of a $1,000 share therein.

This is the costless and debtless money, the costless product of our monetary system, that has been drained from our national Economy and which must now be replaced free of further cost, and this is the missing cash we must now salvage in the ways I herein propose. I hope this Committee and Parliament will see to it that the necessary amendments are made in the Bank of Canada Act and The Bank Act, together with such stiff penalties that never again will the officials of the national bank or the Chartered Banks cancel or burn up or destroy lawful money of Canada.

The dilemma facing us is that the Bank of Canada and the Chartered Banks owe $18 billions to the government and people of Canada, and the government and people owe $18 billions to their bondholders, and that consequently we can't pay off the bonds, or our external or commercial debt either or even make them repayable, until we collect the money from either the Bank of Canada or the Chartered Banks.

We can't free ourselves from the beck and call of the government and banking officials and the burden or their debts and deficits and debt-ridden money system just by getting a new flag or a new Constitution, or by adopting a republican form of government, or by balkanizing our country. We can free ourselves only by collecting the $18 billions of costless, debtless money the banks owe us—it's that simple.

The banking Charters obviously should not be renewed until the bank officials commence to replace and restore free of charge the $18 billions they illegally mutilated and destroyed at the expense of the Parliament and people of Canada. Nothing less will suffice.

The replacement of our missing cash reserves and the enrichment of our people will, according to my Formula, be a simple and costless procedure. Any of the alternate Plans I offer will suffice.

The part that the government and Parliament played in this bizarre fraud on the people is clear. They sold us down the river. They capitulated to the

Finance Department and banking Officials—the real rulers of Canada, the power behind the Throne.

It's perfectly obvious that if the government had encashed the currency profits or got the new capital credits it was entitled to get from the banks, or had properly invested the proceeds of the public debt and used the extra capital in lieu of taxation or bond issues, it could have reduced the amounts it collected from the public by a total of over $18 billions. Instead, it turned the proceeds of the public debt over to the banks to be mutilated and destroyed.

I therefore must charge that the government and Parliament by neglecting their duty and by their own unlawful actions, inexcusably and foolishly cheated and impoverished the people to a total of over $18 billions, equivalent to $1,000 per capita, and they accordingly are the chief culprits in this giant fraud. It's up to his Committee and Parliament to instruct the erring Finance Department Officials to switch their mis-placed deficit from the government accounts right back to the banking sector of our Economy, where it originally came from and where it properly belong. This is a prerequisite to the recovery of our missing cash reserves.

It would be impractical for the government to now levy taxation to pay off its unsecured war debts, though it levied and collected needless billions of dollars to pay unwarranted carrying charges, while still leaving the principal unpaid. It would be a fatal error for the government to levy taxation instead of collecting the money from the banks, and it would be a fatal error too for the government to longer deny itself and the public the $18 billions needed to honor its unsecured bonded debt and sustain our National Economy. No longer can it permit incompetence or fear to cloak its inaction. There is but one choice for the government and Parliament and that is to implement the Plans I've outlined herein, and I hope you will press them to do so.

Only by salvaging and monetizing the missing proceeds of the public debt, the missing cash reserves of the banks and people of Canada; only by reclaiming our hidden bank balances; our uncashed money profits, may we permanently enrich ourselves without further cost, and get the Equity in our National Economy we're entitled to, and provide ourselves with a permanent cash dollar and a sound and solvent financial and economic system, able to pay all debts, and also avert the ever-present threat to our personal and national freedom and security.

To do this, the Banks in brief, would be required to list their own currencies as assets too, as well as listing other peoples' money as assets. The Bank Act should be amended to specifically prescribe that this change be made as called for by my Formula.

I propose too that The Bank Act should be amended so as to provide that it be administered by a new and separate government ministry to become known as "The Minister of Banking and Currency". The remaining financial duties should, I suggest, be administered by a separate minister to become known as "The Minister of Public Accounts and Receiver-General". It is important that this proposed split-up of the Finance Department be made for, under the present set-up, the Minister of Finance and his officials are virtual "Dictators of Canada".

Dictators who falsify public accounts and burn up and otherwise manipulate our supply of money at will, and who deceive Parliament and everybody else with their lying propaganda.

A glaring example of the monstrous lies propagated by the Finance Department officials was loosed on the public in the pre-budget White Paper tabled in the House of Commons in March by Finance Minister Sharp. Dealing with the government debt, the Finance Minister went to great lengths to make it appear that each Canadian is loaded perpetually with an unsecured unpayable government debt of $782 each, on which they have to pay hundreds of millions yearly in interest charges to avoid foreclosure. The truth of the matter is that instead of being in the hole for $782 each as the Finance Minister asserts, each Canadian would if the accounts had been properly prepared and presented by the Finance Minister, now have an inherited equity in the government's asset resources of $120 each. Rectification of this deception by proper accounting would make a difference of $900 to the good for each Canadian, which in total amounts to over $18 billions for some 20 million Canadians. My Formula is intended to liberate the Canadian people from this inherited burden of perpetual debt immorally and illegally imposed on us by the Ottawa Financial Officialdom.

To perpetuate his deception, the Finance Minister according to his March budget, proposes to collect still more and more money from the public instead of recovering the money already over-collected from them and over-paid to the bankers.

Other specific instances of their monstrous deceptions of the Parliament and people of Canada is exemplified in the report printed in the Canada Gazette in March this year dealing with the Chartered Bank rankings as at January 31st last, and in the Submission and evidence tendered by the Governor of the Bank of Canada, Mr. L. Rasminsky, before the Royal Commission on Banking and Finance in 1962 and 1963, dealing particularly with the effect of Bank of Canada operations on the Chartered Banks.

These lying Dictators would perpetuate our historic cycles of depressions, wars, inflations and crash. There is no room in our Canadian Economy for incompetent or illegal Dictators. The guilty functionaries must go and be replaced with competent, law-abiding officials. The risk is now too great. It's high time that we rid ourselves of the enemies within before they get us all destroyed by the enemies without.

In connection with the government's proposed banking legislation as presented by Finance Minister Sharp, which Bills are now under review by this Committee, my over-all appraisal thereof is that the Bills as presented are grossly inadequate, and fail to meet the needs of the Canadian people, and should therefore be revised by this Committee and Parliament.

I make this over-all charge because the Finance Minister fails to recommend any basic reforms on the procedures which are presently being used by the banks and which, as I've set out before, are contrary to the laws governing banking operations.

The inadequacies of the Finance Minister's proposals lie not only in what he proposes but also in the things he omitted to propose that he should have.

The Finance Minister for instance, ignores the insolvent condition of the publicly-owned Bank of Canada and the privately owned Chartered Banks, and he fails to recommend that they place themselves forthwith in a sound and solvent condition, or at least to report their deficit condition, so that all may see just how they stand.

The Finance Minister also ignores the fact that the bank officials are continually mutilating, burning up and otherwise destroying lawful legal tender, and he fails to recommend that the revised Bank Act should specifically put a stop to this illegal practice. He fails also to recommend that they be required to gradually replace as required, the costless and debtless money illegally destroyed to date by the banks and their customers, of which the Canadian government is the largest one. By failing to call for this replacement, the Finance Minister is grossly remiss in his duty.

The Finance Minister failed moreover to recommend that the revised Bank Act should specifically prohibit the Banks from over-charging their customers or collecting premiums from them over and above the face value of the currencies they lend, rent or circulate through their operations, as disclosed hereinbefore.

The Finance Minister grossly failed to propose that the revised Bank Act should specifically prohibit the banks from cancelling their legitimate deposit liabilities and by also cancelling their deposit assets to a like extent, as their now fraudulently do. By failing to recommend this reform, the Finance Minister was remiss in his duty to the public.

He failed also to recommend the switching of the phony cash deficit reported by him in the public accounts, from the government sector of the Economy over to the banking sector where it belongs, so that the government and people may be able to encash the secret cash savings and reserves the banks presently deny them, and which cash assets we must get to place ourselves and the government, and the banks too, in a sound and solvent condition.

The Finance Minister also failed to call for amended statements from the banks to show their true financial condition, and he himself also failed to present the government and Canadian people with a proper government statement showing its true financial position, in place of the phony deficit position he reported.

The foregoing specific matters should have been taken into consideration by the Finance Minister and reported to Parliament in his proposed Bank Act revision.

He instead confined his proposals to more or less minor details and he clearly indicated his intention to disregard the illegal and unsound basic operations of the banks, and his evil intentions to try and perpetuate the existing evil conditions prevailing in Canada as a result of the unjustifiable stand of himself and his officials and his predecessors in office.

I therefore charge that the Finance Minister in taking his stand is remiss in enforcing the terms and conditions of the existing Bank Act, and is also grossly deceiving the government and people of Canada. I submit that he therefore brands himself and his officials as incompetent and unfit to longer hold the power they exert over the business and very lives of the Canadian people.

I therefore call upon this Committee and Parliament to come to our rescue and free us from the devilish clutch of the Finance Minister and his Financial Establishment.

Amongst other things, the Finance Minister proposes to permit an increase in bank interest rates above the present 6% ceiling immediately should the legislation become law, and final removal of the ceiling altogether at some later date depending on his interpretation of the circumstances which may then prevail.

The point however, that the Minister entirely overlooks is that when we recover our unclaimed bank balances and get the money destroyed on us replaced, there will be a plentiful supply of money available for lending and investment purposes, and that decidedly lower interest rates for bank and other kinds of lending will surely follow.

Replacement of the money destroyed on us will put an end for all time to the inflated debt and usurious interest which have been plaguing mankind more or less since biblical times. The present 6 per cent ceiling and competitive mortgage interest rates are bound to seem quite high when the lower lending value of our increased money supply is eventually stabilized at reasonable levels.

The Finance Minister obviously is magnifying the interest rate ceiling matter in a vain effort to keep the public in ignorance of the more fundamental changes in the Bank Act needed for the public good.

The Finance Minister also proposes to delete from the Bank of Canada notes its "promises-to-pay bearer on demand" the money we lack for our business requirements. He claims the promises don't mean anything anyway and should be deleted from the notes altogether. I find however that the promises are intended to mean something and that they should therefore be made negotiable before or regardless whether the controversial wording is deleted from the notes or not. Deletion of the promises from the notes wouldn't of itself convert them from mere substitutes to real money.

The Finance Minister, through ignorance or design, chooses to ignore the fact that the Bank of Canada has already "promised-to-pay" over $20 billions on demand to its note holders and the depositors holding bank balances redeemable in notes. He ignores the fact that the Bank of Canada has already repudiated its promises, and he miserably fails to report this default to the government and people of Canada.

He moreover fails to report that the reason why the Bank of Canada cannot honor its promises is because it burned up all its promissory notes that it got back for free, and because it then failed to replace them with the money it needed to make its promises good.

The Bank of Canada for instance, could have replaced the mutilated promissory notes it got back for free with money and made it available to meet its promises-to-pay, and made them in this way as good as money, which of course they are not at present.

Obviously, the promissory notes aren't as good as money at present because they aren't redeemable in money as the bank pretends. Hence, the notes are merely phony substitutes for money, which we are forced to use as money to our great loss and damage.

The reason why we the public are the losers is because the promissory notes can't take care of our business requirements and make our debts payable too, and because the use of the promissory notes as substitutes instead of as additives, using the money too, leaves the banks, the government and people of Canada all in a deficit position, instead of in the capital position within which the laws governing our financial operations obviously intended us to operate.

With regard to the Finance Minister's proposed changes in the amount of cash reserves the Chartered Banks must retain on deposit with the Bank of Canada or on hand, I find that the basis of these reserve requirements is entirely meaningless. The present reserve basis is purely fictitious, imaginary and illusionary, and was originally designed to and is being perpetuated to deceive the public and government.

I find according to the facts of the matter, that the present 8 per cent minimum of cash reserves and 92 per cent maximum of investment reserves against admitted deposit liabilities, amounts really to only 4 per cent and 46 per cent respectively of the true liabilities of the Chartered Banks. This is because the banks conceal their true liabilities and because hidden liabilities totalling $18 billions have been omitted by them from their reports and statements.

From this it may be properly concluded that the private Chartered Banks have no cash or investment reserves whatsoever to show against the undisclosed portion of their deposit and loan account liabilities. Hence, they should be required to report deficits for the full amounts involved, for if they had not cancelled, burned up or otherwise destroyed their cash assets, as they did, they would now have on hand or on deposit with the central bank a total of 54 per cent cash reserves, instead of only the 8 per cent of their fictitious requirements as suggested by the Finance Minister in his proposal to amend the Bank of Canada Act.

I must accordingly charge that the Finance Minister's proposals in this regard are altogether inadequate and should be disregarded by Parliament in favor of the 50 per cent banking deficit or 54 per cent cash reserve proposals made in my Financial Formula.

The Canadian Parliament can no longer afford to play games in this never-never land of misplaced deficits, and must require that the central bank, and the private Chartered Banks it dominates, must forthwith amend their statements and reports to show their true financial condition as called for by Law, and fully account for the cash reserves they have already illegally destroyed at the public expense.

The Finance Minister fails to deal with other important matters such as (1) He fails to spell out just what Canadian money is intended to be and just what constitutes our national money supply despite the fact that all of our Canadian money is derived from the operations of the Bank of Canada and the Chartered Banks under the banking acts he submits for study by this Committee. Neither does he interpret the term money within the meaning of the acts. (2) He fails to differentiate in the new acts between money as a banking asset and capital balances as banking liabilities. (3) He fails to set out the value of money as compared with the value of bank credit balances. (4) He fails to definitely state whether government cheques or official bank cheques are to be handled and recorded as lawful money assets within the meaning of The Bank Acts. (5) He

fails to definitely state whether such paper is to be handled and recorded as legal tender assets or be used merely for payments only. (6) He fails to prohibit the mutilation and destruction of legal tender notes by the Chartered Banks and Bank of Canada officials, though such mutilation of currency by laymen is an offence under the banking acts subject to fines and imprisonment. (7) He fails to spell out just how money is to be legally issued in Canada and by whom, and the disposition of the profits from such issues. (8) He ignores the fact that cheques are continually used as substitutes for money by the banks and the public despite the fact that the Statutes prohibit such use as being unlawful. (9) He fails to differentiate between banking loans and banking advances. (10) He failed to order the Bank of Canada officials to disclose their huge stockpile of new currency and to report it as a cash asset available to replace the legal currency they and the Chartered Bank Officials have already illegally mutilated and destroyed. (11) He ignores the deficit in the cash assets of the banks and fails to prohibit them from loading their cash deficits on the Canadian government and people. (12) He fails to stipulate that the banks must include their currency profits and deposit assets in their returns to the government and public.

I submit that these matters should be properly dealt with in the new Acts to govern the banks for the next ten years, and I hope this Committee will make sure this is done.

It's clear from the foregoing that our entire Economy has unfortunately been built up on a base of mis-placed deficits and unpayable debts. Our financial base is obviously insecure based as it is largely on the confidence factor, and is liable to topple at any moment like it did in the dirty thirties. Or alternately, it threatens to mushroom into rampant inflation, which could if possible, be worse than the depression.

This is why my Formula calls for us to reinforce our economic base with a real permanent kind of money, instead of mis-placed deficits.

It's clear from this Brief that I propose we save our banks from the illegal manipulations of the so-called Ottawa Financial Establishment, who are trying to perpetuate their age-long subversion of our banking system, and keep us enslaved in their devilish clutch for their own illegal and immoral purposes. To make matters still worse, they in turn capitulate to their international bosses, so that in the final analysis, we Canadians aren't even masters in our own house.

The mistreatment of our money as a market commodity by our government and banks, instead of as an essential element of our capitalist society, has been a most disastrous error, and unless uprooted immediately, this flaw will exact more severe penalties than ever before.

In summing up my Critical Appraisal of our existing banking and currency procedures, I submit that our Canadian banks got $18 billions from their customers for free, without reporting the profit, and that they then destroyed the entire amount, without reporting the loss. They destroyed the evidence; they improperly paired-off the loss against the profit, and cancelled both, and in this way, they concealed their crimes and penalized everybody accordingly.

The foregoing explains why I submit that only through my Copyrighted Formula may we free ourselves from this intolerable and menacing situation.

PART 2

This is a re-statement and clarification of the Copyrighted Financial Reform Formula that I've developed over the years to improve our prevailing monetary, banking, accounting and taxing procedures so as to remedy the fundamental flaws in our financial system and at the same time, enrich our government and people.

My purpose, briefly, is to recoup the huge losses we've inflicted upon ourselves by our own financial bungling. My Formula proposes that this be done by salvaging our missing cash reserves in the manner hereinafter set forth.

I first would stress the fact that according to the British North America Act, the control and management of our finances and financial operations, including banking loans and the issue and safeguarding of our currencies and money supplies, etc., rests exclusively with the Federal Parliament.

In practice however, Parliament has delegated its exclusive Franchise to the Bank of Canada and the Chartered Banks to be operated on its behalf.

If this exclusive Franchise means anything, it certainly means that all new money and capital put out through the Bank of Canada and the Chartered Banks under their Charters, together with the capital profits therefrom, must accrue to Parliament alone, and must therefore be always accounted for to Parliament.

This requirement unfortunately, has never yet been complied with or completed or carried out. Hence, one of the chief aims of my Formula is to get a proper accounting of all such new money and capital amounts and profits accruing to the Canadian Government. My Formula provides for this in the following manner, viz;

A BETTER KIND OF CENTRAL BANK

It's quite clear that Canada's Central Bank is intended to be a Reserve Bank as well as a bank of issue. It undeniably is intended to receive, hold and safeguard the cash reserves of our banks and government and the cash savings of our people. Hence, to comply with this requirement and give effect thereto, I propose the following changes be made;

(1)—That the name of our present central bank be changed to "The Reserve Bank of Canada". (2) That this reformed central bank be required to accumulate, hold and safeguard our national cash savings and reserves. (3) That these cash reserves or savings shall consist of the legal tender currency it issues when such currency is properly received back from the government or Chartered Banks. (4) That regardless whether the currency so received back consists of new, used or damaged notes, they shall all be regarded as having the same equivalent value. When such used notes are received back, they must be paid for at face value and shall be deposited or stockpiled as cash assets. If they are subsequently cancelled, burned up or destroyed, they must be replaced free of cost from the Reserve Bank of Canada's stockpile of new currency. In the latter event, the new currency shall be stockpiled and reported as a cash asset, for the government and the used notes shall then be destroyed as no longer having any exchange value and as no longer being legal tender.

By this proposal, it's to be understood that the reformed Reserve Bank of Canada must hence forth carry its own notes as cash reserves or deposit assets, providing they were previously issued and properly collected back in exchange. Furthermore, that this new kind of cash asset is intended to be used to provide The Reserve Bank of Canada with a permanent supply of cash money to offset its increased liabilities, and to provide the government with a supply of costless checking balances. This is essential so as to credit the government with the new capital resources it is entitled to get from the banking and monetary Franchise it assigned to the banks to handle on its behalf. As an alternative, the revised Bank of Canada could properly receive and hold government currency either notes or certified cheques, as its new permanent cash account asset.

It's to be understood too that when the revised Reserve Bank of Canada in the future lends, sells or rents new currency to the Chartered Banks, it shall charge them for the face value thereof once only, and shall not charge them any premiums thereon, or issue them at any discount value either.

Furthermore, the new Reserve Bank should forthwith properly report its hidden liabilities in the proper total involved, as owing to the government direct or alternately, as owing to the Chartered Banks so they in turn may report their hidden capital liabilities to the government or their customers.

In either event, the Reserve Bank could replace all mutilated used currency received back from the Chartered Banks witn new currency from its own stockpile, or alternately turn it back by way of deposit with the Chartered Banks from whom it got it, otherwise it would hold it as a cash asset of its own.

In the event the used currency be deposited back with the Chartered Banks, they would in this way get the necessary currency asset needed to offset their hidden pass book liabilities to the government or other customers. Either method would suffice to properly report the currency transactions.

Regardless whether the proposed cash reserves or currency assets be carried by either the Reserve Bank or the Chartered Banks, or in part by each, the amounts shall be for the proper total only, and shall not if combined exceed the amounts necessary to provide the government with the amounts properly due it from the currency operations of the Central and Chartered Banks. This control is necessary so the government be provided with the proposed costless checking balances once only, whether they are provided by the Central or Chartered Banks, one or the other.

The financial statements of the enlarged Reserve Bank of Canada should of course, disclose its enlarged and improved financial standing accordingly.

A BETTER KIND OF COMMERCIAL BANKS

In order to provide ourselves with a better kind of commercial banks, or Chartered Banks, as we call them, my Formula calls for certain basic changes to be made in their make-up as follows;

(1) The Chartered Banks shall pay the Central Bank once only for the currency or the securities they get from it, i.e., they shall pay it the face value only for such currency or securities and no more or less. (2) The Chartered Banks, in turn, shall charge their customers once only for loans, i.e., they shall

charge their customers the loan amounts only, no more or no less. (3) The improved and enlarged Chartered Banks shall not mutilate their legal tender cash holdings for destruction by the Central Bank officials unless they get in return an equivalent amount of new currency free of cost from the Central Bank. (4) In the latter event, the reformed Chartered Banks shall stockpile the new currency as a cash asset and shall report it as being required to offset their present hidden pass book liabilities to their customers or to the government. (5) The improved Chartered Banks shall properly report the dispatch to the Central Bank of any used currency as cash deposits with it, and shall not mis-report such dispatch of used currency as repayments to the Central Bank instead of as cash deposits. (6) The improved Chartered Banks shall not mis-credit or over-credit the Central Bank for premiums on the new currency they borrow, buy or rent from it, but shall report the face value cost thereof only.

In order to bring the present financial condition of the Chartered Banks in line with the foregoing proposed improvements, they shall charge the new Reserve Bank of Canada for all unreported deposits made with it to date. The proceeds thereof, as charged, shall be credited to the Government to provide it with the new capital it is entitled to get from such revised procedures.

This latter proposal would not apply of course if the new capital referred to has been alternately, credited to the government by the Central Bank. The costless checking balances are to be provided to the government once only, either by the Central Bank or the Chartered Banks, but not by both in connection with the same transactions.

The financial statements of the reformed and enlarged Chartered Banks shall report their increased cash holdings and deposit assets accordingly, along with their increased liabilities to the government.

A BETTER KIND OF MONEY

The better kind of money envisaged by my Financial Reform Formula would consist of a new Canadian Dollar intended to be carried by the issuers as a cash asset or cash reserve. The new Canadian Dollar would be carried as a cash asset by the reformed Reserve Bank of Canada in the same way as our central bank presently carries other currencies as cash assets or reserves.

The physical form of the new paper dollar need be changed but little, so long as the new dollar shall be issued as a legal tender certificate, instead of the promissory form of note as presently used. The new dollars are to be treated as cash money in themselves, bearing no promise of redemption in any way whatsoever.

The initial supply of these new Canadian Dollars would be accumulated or provided by the Reserve Bank and reported as cash assets in the proper amounts, and would be treated as cash assets needed to offset its hidden liabilities to the government or Chartered Banks.

When wear and tear renders these proposed new Canadian Dollars unfit for further use in exchange, they shall be destroyed only after they have been replaced without cost by the issuers and when the new replacement dollars are held and reported as cash assets in place of those destroyed.

This proposed stockpile of a new kind of Canadian currency when carried as cash assets by the Central or Chartered Banks shall constitute our cash savings and be used as a permanent basic money supply. On top of this, our available money supply would be further increased by the existing supply as indicated by our pass book balances and outstanding circulation.

A BETTER KIND OF PUBLIC FINANCE

My Formula in this regard proposes that the government must get a profit or get credit for the amount of new money issued, whether direct or through the banks.

If the new money be issued through the banks, the government would get credit for it without cost either from the central bank or the Chartered Banks, but not from both for the same transactions. If issued by the government direct, it would get the profit from spending new money directly into circulation.

To put it another way, all amounts heretofor improperly transferred from government deposit accounts to its loan accounts, according to present practices, would be put back into its deposit accounts and made again available for public purposes in lieu of the new capital it failed to get credit for from its currency and banking transactions.

An alternate way of implementing my Copyrighted Formula for Public Financing would be for the government to get credit for its tax levies from the taxpayers' banks as well as from its own bankers.

By doing this, the government would get double value from its taxation without any additional cost to anybody. Or, to put it another way, it could get full tax value from only half its present tax levies.

Either technique would provide the extra capital we need to solve our financial problems.

In either event, the government would be relieved of the necessity of levying unwarranted taxes or putting out unwarranted debt obligations, as it now finds it necessary to do, to fill the gap in its income resulting from its failure to get credit from the banks for the issue of new money under its exclusive Franchise.

When my Formula in these respects is implemented, the improved position of the government's financial condition would be reflected in its reconstructed Balance Sheet.

A BETTER KIND OF CAPITALIST ECONOMY

The purpose of my Formula in this regard is to bring about a beneficial switch of our Economy as it presently exists from a deficit basis to a solvent capitalist basis.

My Formula calls for this to be effected through my proposed betterments of the Central Bank, the Chartered Banks and the dollar itself as hereinbefore set forth.

By having the central bank or the Chartered Banks provide the government with costless checking balances in amounts more than sufficient to offset the deficit or net debt figure shown in the government's balance sheet, the cash deficit reported would be replaced with cash assets.

The government's balance sheet would then show cash assets more than sufficient to replace and wipe out its present net debt item, and it would henceforth report a balance sheet Surplus, instead of reporting its present deficit position.

This would place the government in a sound and solvent position and would make the outstanding government debt repayable. Moreover, the earning value of this new government cash asset would offset the heavy carrying charges on the unpaid debt now being levied on the taxpayers.

A BETTER KIND OF MONEY FOR INTERNATIONAL EXCHANGE

The foregoing summarizes my Financial Formula for improving our domestic exchange transactions. In addition, I also beg to submit an outline of my Formula for International Money for our foreign trade and settlements, as follows;

I submitted a proposal to the International Monetary Fund for their consideration some years ago, in competition with the other Plans they have for consideration, but so far the Fund has made no choice, and so far the Canadian Government has not seen fit to have its Fund Delegates endorse or promote my Plan, which according to United Nations Officials is undoubtedly more conceptually correct and more attractive than the compromise plans now getting attention from the Delegates and Officials.

Here's how my Formula for International Money, as submitted, could be beneficially implemented through existing International Agencies;

The holdings of the IMF include $9 billions worth of securities payable in Members Currencies. While these are demand securities, they are non-negotiable and non-interest bearing, and while they are held by the Fund as assets, they may be considered as frozen capital derived from subscriptions of the member governments.

The proposal I made to the Fund is intended to bring about the release of all this frozen capital by freeing it and making it available to the member nations in the form of negotiable checking balances suitable for use as payments for international trade and balances. By releasihg this frozen capital for circulation as international money, the operations of the IMF and the World Bank would be revamped and brought into line with the requirements of my Formula.

Checking balances would be alloted to the member nations providing them in this way with a free supply of costless new capital. The member nations could then use certified payments drawn on their checking accounts as valuable negotiable international money in full settlements, in lieu of and in place of existing methods and media.

In giving effect to my proposals, the Fund would turn over its $9 billions of uncashed demand obligations to the revamped International Bank in exchange

for a like amount of negotiable checking balances. The IMF would then have the checking balances as its asset in place of the members demand obligations, and it could then commence making payments by way of cheque immediately.

In addition to the foregoing, the revamped International Bank would accept all IMF cheques from the Payees as cash deposits, and it could do this free of cost to the Fund, and without making any charges or reductions in its checking balances whatsoever. In this way, the IMF would make a clear capital gain for the full amount of the checking issues accepted by the International Bank as cash deposits from the Payees.

Moreover, as the IMF cheques were received on deposit by the International Bank, the Fund could if so desired, draw back an equivalent amount of its present investment holdings against its own checking balances. In this manner, the IMF could regulate the total amount of checking balances outstanding on the books of the International Bank, over and above the permanent portion outstanding against the permanent deposit assets referred to above.

If these proposals were to be carried out as I've suggested, Canada's share of the resulting capital gains would amount to some $400 millions.

Though the IMF officials haven't yet advised me of their decision in regard to my proposals, and though my proposals haven't so far as I know, been yet submitted to the member nations for consideration, I would say that the United Nations Secretariat for Economic and Social Affairs wrote me saying that my Formula is conceptually well founded, and that my proposals represent a valuable contribution to the general progress of ideas, and to a better understanding of the fundamental issues which confront the world Economy.

It's obvious that a sound international dollar for our foreign trade and settlement is a must if we Canadians are to have a sound basis for peaceful and prosperous international trade and intercourse.

I therefore hope that this Committee and Parliament will come to this conclusion too, and will resolve that Canada should spearhead a movement in the United Nations to have my proposals submitted to the member nations for open discussion and study, and will also resolve that Parliament should take the necessary steps to help get the world at long last an international dollar suitable for our international trade and settlements.

This is essential because the use of Canadian dollars and other domestic currencies and other substitutes now being used are no longer satisfactory, and because their continued use is even now bringing about a blockage in international trade, and because the current shortage in international money is restricting world trade to the great detriment of all nations alike, and is directly responsible for the unsolved world trade problems, and because this intolerable situation is liable to lead to undue world competition and international discord and strife.

PART 3

I hope that the government and people of Canada will now recognize and agree that I've succeeded in solving the great money mystery, the great fraud that has fooled everybody for the past 270 years, and that I've disclosed and submitted herein the ways and means to put an end to this almost unbelievable

fraud, and so place our National Economy in a sound and solvent condition, and put the Canadian people in a position to solve the various other economic and financial problems facing us today.

My new Capitalist Reform Formula proposes, in brief, that instead of destroying issued or used note currency or cheque currency when it gets back into the hands of the issuers, it should, up to a definite amount, be capitalized for the public purse. In other words, my Formula is intended to create and provide bank credit checking balances free to the government without creating any government debt to the banks to offset the free checking balances.

I propose that this be done by having the banks stockpile it as cash savings held in reserve, and by having them issue checking balances against it for the Receiver-General. Alternately, the banking deficits arising from the destruction of their currencies could be beneficially capitalized for the public purse, instead of capitalizing the issued currencies. I propose, in short, that we make our capitalist system solvent by means of my Formula.

We have a moral and legal obligation to end the phony dollar scheme imposed on us by our finance department and banking officials, and to stop their gross depletion of our cash resources. My Formula would constitute a history-making switch from deficit to capital financing; from a minus into a plus; a change-over which is absolutely essential to our economic survival. We can't go on indefinitely taxing ourselves and indebting ourselves in lieu of restoring and using the cash we've been cheated out of.

The many benefits which would accrue to our government and people through the use of my Formula are quite obvious. The supply of new cash capital for the government would become available for public uses, and its use would benefit each and every person in Canada. The replacement of the cash reserves we've destroyed to date would provide the proper ratios between our cash reserves, money supply, gross national product, total indebtedness and total business turnover, and would avert our ever-present threat of depression or inflation.

The domestic and foreign exchange value of our money would be properly adjusted according to the improvements I've suggested, and this more realistic value of our money would be mute testimony of the validity of my Formula.

The use of our new-found cash reserves as a permanent monetary base would place our government and people in a sound and solvent condition, and would ensure permanent prosperity, insofar as monetary affairs are concerned. The proper balancing of our public and private accounts would remove fear of further depressions and of inflations too, and would avert undue fluctuations in the value of our money.

By salvaging our missing cash savings; our unclaimed bank balances; our uncashed money profits, we would put an end to involuntary unemployment and discriminations, and could provide ourselves with markets freed of restrictions and undue competitions. Moreover, the costless tax reductions it would make possible would reduce our productive and living costs and prices, and would stabilize our Economy and provide us all with the equivalent of a substantial increase in our incomes, all to our common benefit.

Billions in new capital will be unleashed for investment purposes through my proposed costless repayment of the public debt. Or alternately, this new capital could be beneficially used by the government to buy back whatever portion of our Canadian resources now in the hands of foreigners, that may be deemed as essential to buy back for the benefit of our citizens. The investment of this new-found capital by the government in equity securities would give each Canadian a share of business profits and would provide a basis for solving the age-long conflict between labor and employees.

My Formula is designed to show just how our government and people, through my efforts, may be enriched to the tune of over $18 billions, equivalent to $1,000 per capita. Inasmuch as I've uncovered a huge hidden reserve of unclaimed bank balances and a huge potential of currency to back the bank balances up, my great discovery will provide a thousand dollar share in our Economy to each man, woman and child in Canada, a share they haven't now got. No person could have any legitimate objection to my proposed beneficial financial reforms.

While neither the government or banks have so far seen fit to buy or license my Copyrighted Financial Reform Formula to enrich themselves and people of Canada, perhaps this Committee may influence Parliament to do so in the public interest. My Formula is most essential. It is the only Formula which will enable Canadians, for instance, to live together with themselves and with the atomic bomb in peace and prosperity. There will be no breakup in Canada nor will we succumb to any other nation if we salvage our $18 billions cash savings which we've destroyed on ourselves and use the money to place our government and people in a sound and solvent condition, instead of the insolvent deficit position we are now vainly trying to operate from. Cash deficits and unpayable domestic and external debts are levying their disastrous penalties on everybody for foolishly trying to use deficit money alone in place of permanent capital money for our domestic and international trade and settlements. If a run on the banks should happen, their insolvent condition would soon show up.

We Canadians now have an unprecedented opportunity to benefit the entire world by initiating an historical switch-over from deficit financing to sound capitalistic financing for both domestic and external trade, and I hope everybody will see fit to endorse my proposals.

I feel that this Committee and Parliament should now undertake to complete the task of salvaging the entire $18 billions on behalf of the public in general. Amended financial statements should be called for from the erring officials of the Bank of Canada, the Finance Department and each Chartered Bank to show their true financial condition, so as to comply with the laws governing their operations.

These amended statements and the restoration of our destroyed cash reserves too, should be demanded before the banking Charters expire. Otherwise, the banks and the finance department and banking officials too will downgrade themselves accordingly and subject themselves to the wrath of the Canadian people.

This completes my Brief and Statement, and I hope that this Committee will in the public interest, urge Parliament and the government to deal with me for

my Copyrighted Financial Reform Formula, and will urge them to enact the legislation necessary to implement my plans and proposals. I hope too, you will urge them to do so while time and opportunity permits.

I am submitting this Brief and making this Statement to you on behalf of myself and the public in general.

FRANK O'HEARN
Director
THE PRIVATE RESEARCH BUREAU

SCHEDULE OF EXHIBITS

Filed by Frank O'Hearn with Brief

EXHIBIT

"A"— Record of my loan account transactions with the Bank of Nova Scotia, as set forth in Exhibit # 48 as filed by me with my Brief to the Royal Commission on Taxation in 1963.

"B"— Memo further explaining foregoing Exhibit "A" loan account.

"C"— Copy of my letter dated March 20th, 1963 to the Royal Commission on Banking and Finance.

"D"— Bulletin exposing the falsification of war financing accounts by our government and banks, and misappropriation of public funds.

Copy of Exhibit # 48 filed with Brief to Royal Commission on Taxation.

EXHIBIT "A"

My record of my Loan account transactions with the Bank of Nova Scotia, Scarboro, Ont., Kingston Rd. and St. Clair Ave., Branch.

Date	Items	Debits	Credits	Balance	
1958					
Nov. 13	Amount of debt incurred ..		$ 5,600.	$ 5,600.	Cr.
Dec. 9	Amount of debt incurred ..		5,400.	11,000.	Cr.
Dec. 28	Debit Memo re U.S. Exchange	$ 172.16	(P.O.)	10,827.84	Cr.
1959					
Oct. 29	Cash repayment on account	3,000.00		7,827.84	Cr.
Oct. 29	Repayment from my savings a/c by way of transfer	2,000.00		5,827.84	Cr.
Oct. 30	Cr.M. transfer to my Savings a/c		(P.O.) 172.16	6,000.	Cr.
1961					
Sept. 21	Cash repayment on account	3,000.00		3,000.	Cr.
Sept. 29	Cash repayment on account	4,000.00		1,000.	*Dr.*
Nov. 8	Invalid transfer from my savings account to my loan a/c made by bank without authority	9,000.00		10,000.	Dr.**
		$21,172.16	$11,172.16	$10,000.	*Dr.***

** The bank still owes me this amount.

This is a true statement of my loan account.

Frank O'Hearn

P S.—My records show that the Bank of Nova Scotia still owes me the sum of $10,000 as above indicated and that I, in turn, am indebted to Parliament for the amount of new capital circulated through my monetary transactions with the Bank of Nova Scotia. Of course, I can't pay up unless the bank pays me first. I will abandon my claim against the bank if it will pay the government direct.

Frank O'Hearn

P.S.S.—The simple fact is that the Bank of Nova Scotia stole $10,000. from my savings account to repay itself for additional loans it had never made to me.

Frank O'Hearn

Exhibit "B"

Memo by Frank O'Hearn further explaining his Bank of Nova Scotia Loan Account Transactions.

Back in 1958 I bought, borrowed or rented a total of $11,000 from the Bank of Nova Scotia, and that of course is the total amount I owed them. When I got the statement from the bank, I found that they had charged me with a total of $22,000 instead of only $11,000. They charged me $11,000 for the loan and a further $11,000 for covering my cheque payments. Against this $22,000 they credited my savings account with a total of $11,000 only. In doing this, they obviously made a clear capital gain of $11,000 which gain they failed to report in their statements or take into consideration in any way whatsoever.

I took the matter up with the Accountant and after due consideration, he agreed that the bank actually did charge me twice over. He definitely stated that I was the only person who advanced the over-charge claim and the only person ever to complain about it. He stated furthermore that the bank made a practice of similarly charging every customer twice over, and he grudgingly admitted that he didn't know why, but they did.

I then advised them that even though they charged me double, I wouldn't pay them double, and they agreed that I wouldn't have to pay twice over as if they made me two loans, and they wouldn't expect me to do so. I told them too that if they didn't report the profit or turn it over to the government, I would claim it and pay it to the government myself. So, the matter was left standing that way at that time.

According to my records, the first amount of $5,600 involved was on November 13th 1958, and the second amount of $5,400 was on December 9th of the same year, making the amount I owed them at the end of 1958 $11,000 as collateral for which I gave them securities for a further amount of $11,000 to put the transaction on a 50 per cent margin basis.

On October 29th 1959 I made the bank a cash payment of $3,000 from the sale of part of the collateral, and I paid them a further $2,000 from my savings account by way of transfer. This $5,000 reduced my indebtedness to the bank down to $6,000.

A couple of years later, on September 21st 1961 to be exact, I had my broker pay them $3,000 cash and on the 29th of the same month, my broker paid them a further $4,000 and took delivery of all the securities remaining in my account.

This $7,000 cash payment not only paid my $6,000 debt in full, but left a balance of $1,000 standing to the credit of my loan account in my favor. Hence, I had balances in my favor in my loan account, my savings account and my current account, and I was not indebted any further to the bank in any way whatsoever.

Despite this situation, the bank several months later transferred without any notice or authorization from me, a sum of $9,000 from my savings account to my loan account, which transfer increased my loan account balance to $10,000 in my favor, and depleted my savings account accordingly. But the fact still remains that they owed me the same amount after they made the unauthorized transfer as they did before they made it.

I took the matter up with them and protested against the transfer and in reply they advanced the foolish claim that I was still indebted to them for $9,000, so they took it from my savings account. I disputed their claim and pointed out that months before I not only had paid them off in full but actually over-paid them by $1,000 as evidenced by the balance in my loan account. I pointed out also that I borrowed the money from my broker to pay off my bank debt and that my debt thenceforth was owing to them and not to the bank. Obviously, I could not have been indebted to the brokers and the bank too at the same time for the same transactions. I admitted my debt to my brokers when they paid the bank cash for my stocks and took delivery of my securities, but I disputed my indebtedness to the bank inasmuch as I couldn't possibly be indebted to both at the one and same time for the same transactions. The question of interest or rental charges did not enter into the situation inasmuch as I paid the carrying charges to them monthly—only the principal amounts are involved.

This is how the matter stands even to this day. The transfer the bank made from my savings account was clearly invalid, for according to the Law as explained to me by my counsel, as all my accounts were in a credit position in my favor, any transfers made without my authority were illegal, inasmuch as none of my accounts were in a debit position against which a transfer could be legally made.

I issued cheques on my accounts but they refused to cover them, saying there was no balance in my favor, which obviously was not in accordance with the facts. I would say here, that shortly after my dispute with the bank occurred, both the accountant and the manager were moved away from their branch and the bank refused to tell me where they went or what happened to them, and I have never seen or heard from them since. But their successors also refused to pay me the $10,000 they still owed me. I told them definitely they had to either report the $10,000 capital gain they made from my transactions with them or else turn the profit over to me so I could pay it to the Receiver-General of Canada to whom it belongs according to the laws governing banking and currency transactions. But they would do neither. So I advised them I would take legal action accordingly to get my $10,000.

To put it in other words, according to my records I rented $11,000 from the Bank of Nova Scotia. I returned $10,000 to it in cash and made a profit of $10,000 on the deal. This is not a stock profit that I'm referring to, but a money profit. I did make a small profit on the purchase and sale of the stocks after holding them for some years, but I cashed in this stock profit. The bank however, forcibly took my money profit away from me and refuses to return it to me advancing the foolish claim that I was indebted to it for an additional $10,000 because it had loaned me that amount over and above the original $11,000 loan, which claim of course, is absolutely false, for it never made any extra loan to me and it was not entitled to collect repayment of a loan it never made me. It won't even take this money profit for itself, or turn either the money or the money profit over to the government, as I told it to do. As to the money itself, strange to relate the bank has since mutilated and destroyed the entire amount that I rented and returned to it or gave it to the Bank of Canada for free to be mutilated and destroyed. It's this cash asset that I want restored, and it's this money profit that I want to get for myself, and everybody else, either direct or through the government.

I reported the entire situation in my Brief to the Royal Commission on Banking and Finance, but it too ignored my protests and concealed the facts from the government in their report made in February 1964. I then reported the situation in my Brief to the Royal Commission on Taxation which gave me a fair hearing and which promised to take my complaints into consideration in their report to the government.

Now, I would not publicize this intolerable situation were I not in a position to tell the bank just how it could pay me the $10,000 it still owes me without any cost to itself. One way it can readily do this is by simply paying me the used or damaged currency it has on hand, instead of mutilating it for destructive purposes and sending it to Ottawa to be burned up as worthless. Bank of Nova Scotia officials actually cancel and mutilate legal tender which they admit is worth its face value right up till the moment it is finally destroyed by the Bank of Canada officials. It's beyond comprehension why they insist on destroying legal tender instead of using it to pay their legal indebtedness to me and their other customers.

In brief, because the Bank of Nova Scotia doesn't report a $10,000 capital gain from my transactions, I claim it must either reverse the charges it made against my savings account or else it must return me the cash I paid it.

The foregoing explains my charge that the Bank of Nova Scotia has grossly cheated me out of $10,000 without reporting a profit, and why I furthermore charge that it has cheated the government and its other customers in a similar manner to a total of over $3 billions, of which customers the government is far the largest and which has therefore suffered the greatest loss. This is obvious for the bank treats individual accounts and corporation accounts in the same manner as it treats the government accounts.

Moreover, all the other Chartered Banks are of course, in the same position with respect to the government and their other customers as my bank is. The amount that the Chartered Banks altogether owe their customers totals the huge sum of over $18 billions, and I submit that in order to show their true financial condition the banks must show this total on their books as credit balances in their loan accounts still owing to the government and other customers.

Frank O'Hearn

EXHIBIT "C"

Copy of Frank O'Hearn's letter to Royal Commission on Banking and Finance dated March 20th, 1963.

I have just received a copy of the Submission made to you by the Canadian Bankers' Association in July 1962 and in support of which they appeared before you in January last. In connection therewith and in further connection with my Submission to you, please permit me to advise you as follows;

While we agree with the statement made by the Bankers' Association that "Our financial system must clearly serve the public, not the other way round", we must say in considering the role of banking in our Economy, that their submission is chock full of gross mis-statements, deceptions and selfish suggestions, one and all obviously made for the purpose of deceiving the Commissioners, our parliament and general public so they may as they did in 1954, again fraudulently secure renewal of their banking Charters, and continue to enslave the public instead of serving them as they profess to do.

Amongst the deceptions and mis-statements which stick out most noticeably are the following;

1. Their statement that "it is an accounting truism that the deposits entrusted to the Chartered Banks are the banks' liabilities to the Public" is grossly incorrect. The fact, as we've already pointed out to you in our Brief, is that bank deposits make up our money supply or stock of money, and that as money is always an asset, not a liability, the deposits the banks got from their customers whether in bank funds or customers funds, should therefore be always listed by them as banking assets. This obviously, is necessary so they may have the monetary assets as well as the investment assets needed by them to offset their liabilities which total, as we've also already pointed out, more than double the amount of liabilities admitted by the banks in their financial statements. It is this gross falsification of banking statements that has caused us the loss of half our money supply that we should have available for our requirements.

2. The bankers omit to disclose in their submission the techniques they use to wipe out all their deposit assets and half their deposit liabilities, and in this way hide the loss of our money from parliament and the public too. Here is one method they use; they mis-place both debits and credits. For instance, they have improperly charged billions in deposit debits against customers pass book balances to reduce banking liabilities, which debits they should have entered on the asset side of their statements to increase their deposit assets, instead of misusing them to reduce deposit liabilities. By this technique, they were able to do completely away with our entire stock of savings reserves, but in doing so, they cheated themselves as well as their customers.

3. Their statements that "the banks lend or invest the funds deposited with them" and "The funds on deposit with them are made available to borrowers and are continually employed in their lending and investment activities" are all grossly incorrect, and are clearly in direct contradiction to their other statements dealing with the "money-providing" functions of the banks. This latter function

refers to the issue of costless money in handling their customers transactions. Moreover, it is this latter function that distinguishes the banks from all other operators in the financial field. Their tricky method of helping circulate costless money is a most distinguishing characteristic of the banks.

4. Their statement that they are "able to repay their depositors on demand" is grossly incorrect too. The fallacy of this statement is obvious for the banks could pay off only a small portion of their true liabilities from their present holdings and would have to default on their main liabilities because of their inability to collect from their own debtors. Their claim is fallacious too because of the fact that their pass book liabilities to customers total over double the amounts they admit in their statements. Hence, it would be only by conspiracy and manipulation of bank funds that the banks could survive any real run on them by their creditors.

5. One of the most reprehensible features of the bankers' submission is their obvious attempt to hide the fact from the Canadian people that the huge deficit in our national Economy is in the banking system, not in the government accounts, as the bankers and Finance Department officials mis-lead the public to believe. The deficit reported in the governmental accounts would be changed to a surplus were the banks to credit the government with the amounts they over-collected from it in the course of its borrowings and repayments. The deficit in the banking system would be changed to a surplus too, were the banks to report our national money supply and cash savings as banking assets so that the resulting surplus would become available to them as deposit assets to offset the costless credits which should go to the government.

6. Another reprehensible feature is the bankers attempt to hide the fact that the Taxpayers banks failed to credit the Receiver-General with freed credits to offset the cheque charges made against their pass book balances. Had they done this, the Receiver-General would have gotten double payment of the tax cheques, once from its own bankers and once again from the taxpayers bankers; once for the deposits and once to offset the payments. Had they done this, the government would have been able to follow up with huge tax cuts for the benefit of the taxpayers and for the reduction of living costs and production costs all in the public interest.

7. That the government and people of Canada are illegally forced by the bankers to use bank money only to the complete exclusion of their own money, instead of making use of both, is clearly indicated by the sharp fluctuations in money and credit availabilities enforced through their artificial cycles of so-called "tight" or "easy" money periods.

8. The bankers statement that "for a generation, no Canadian has lost a night's sleep worrying about the safety of his "money in the bank" is obviously false. Inasmuch as the term "safety" of our money necessarily includes both the quantity and value thereof, it can be safely assumed that millions of Canadians have lost many a night's sleep worrying about the depreciated value of his bank money and the complete loss of his own money which he was illegally forced to turn over to the government and banks by way of over-payments, improper payments and over-taxation.

The foregoing examples of the bankers' duplicity clearly indicate how they operate outside the law and against the public interest. The foregoing examples should be sufficient to convince the Commissioners that the Submission by the Bankers' Association is intended to deceive them, and Parliament and general public too. The intent of the Submission clearly is to get their 1964 Charter renewals railroaded through Parliament, just like the 1954 renewals were railroaded through Parliament by Collusion amongst the bankers, the then Minister of Finance and the Chairmen of the Commons and Senate Banking and Commerce Committees.

The lesson to be learned by you Commissioners, we suggest, is to avert in 1964 a similar fraud on the Canadian government and people. You should call upon the government and bankers to disclose and properly account for the public funds we've entrusted to their custody. Failure to account for these billions of public funds will bring their own punishment. The logical thing for the government to do under the circumstances would be to implement the proposals we've submitted to you in our Brief, and we hope the foregoing criteria will assist you in coming to the same conclusions.

end of the Frank O'Hearn letter

P.S.—The Royal Commission on Banking and Finance completely ignored this letter that I wrote them, and deliberately concealed the contents from the government and people of Canada.

EXHIBIT "D"

Bulletin exposing falsification of war financing accounts by our government and banks, and mis-appropriation of public funds.

The total costs of government for period 1939-46 approximated $25 billions
Made up as follows; for war expenses .....$20 billions
for non-war expenses ..... 5 billions

$25 billions

The Finance Department Officials reported these expenses were financed as follows;

By tax revenue collections .....$13 billions
By proceeds of bond sales ** ..... 12 billions **

Total government collections reported .....$25 billions

** Instead, however, of putting out only $12 billions in bonds during the war period, they actually put out bonds to a total exceeding $17 billions.

The above figures were taken from government reports to Parliament as recorded in Hansard Reports for 1946 and 1947.

** While it didn't seem clearly reported, the extra $5 billions in bonds put out were, presumably, put out to re-finance maturities of pre-war debt obligations.

In connection with the foregoing, I find and must charge that the government Finance Department Officials grossly deceived Parliament and the Canadian people in the following respects, viz.,

1. Because they failed to report that pending receipt of the tax and bond money, they paid out a total of $9 billions in new money directly to the public to defray war costs.

2. Because they recorded their new money payments as having, instead, been directly put out by their bankers and that the government was consequently indebted to them to a total of $9 billions. I find however, that the government itself paid out the new money directly. I submit that they mis-reported deposits of this new money as loans, and that unwarranted debt charges were made against the government.

3. Because they failed to report that they used bond moneys to a total of $9 billions to repay the fictitious bank debts. I submit that these improper debt charges must now be refunded.

4. Because, to further worsen their fraud, they paid out a total of $39 billions, instead of paying out only $30 billions, leaving a $9 billion deficit in the government's cash assets.

5. Because they further increased the deficit in the government's cash assets by an additional $9 billions by improperly paying their alleged bank debts twice

over, once in cash as they deposited their tax and bond money collections, and once again as they transferred similar amounts from the government's chequing balances to the banks.

6. Because in other words, they illegally paid public funds to their bankers for free as repayment of loans, which loans I submit, the banks had never made to the government, as alleged. They must now get back these improper payments and over-payments.

From the foregoing, it's clear that the government paid out $30 billions to the public directly, and also improperly paid $18 billions to its bankers, making its total payments $48 billions to cover its legitimate expenses of only $30 billions.

Or to put it another way, inasmuch as the government paid $9 billions of its war-time costs with new money, all it needed to collect from the public was $21 billions. But despite this, the Finance Department Officials collected $30 billions from the public. Then they turned this extra $9 billions over to the banks for free and left the government with unsecured public debt obligations outstanding unpaid with nothing to show for the extra money they collected in from the public, or the extra money they paid the banks.

Obviously, had the Finance Department Officials not made the improper payments to the banks, the government would have had $18 billions cash on hand available for spending and debt repayments.

Hence, I charge that this entire $18 billions is still missing from the Government Treasury, and I submit that the banks were not entitled to the over-payments made them. In brief, the government put it out and the banks took it out. I submit too that this entire amount is presently owing to the government by its bankers.

In view of the foregoing, I charge that the Finance Department Officials grossly mis-appropriated public funds to a total of $18 billions in the foregoing manner.

It's clear from the foregoing too that if the finance officials had retained the $18 billions instead of giving it to its bankers for free, the government would now have $18 billions cash on hand and a balance sheet surplus of $3 billions, in place of the fictitious $15 billions cash deficit they reported in its financial statements.

According to my investigations, this entire $18 billions, instead of being deposited or stockpiled and reported as cash on hand, by either the government or its bankers, was cancelled, mutilated, burned and completely destroyed by the banks at the public expense, and caused us great loss and damage accordingly. I repeat, the government put it in circulation and the banks took it out. Further more, inasmuch as the government war debts were left outstanding unpaid, the subversive Finance Department Officials left the banks, the government and the public all in an insolvent, bankrupt and deficit position, unable to pay our debts or solve our other economic problems.

Hence, I further charge that the finance officials grossly deceived Parliament by reporting the cash deficit as being in the government's cash accounts instead of properly reporting the deficit as being in the banking cash accounts,and by also failing to report that the entire amount is still owing by the banks to the government.

This constitutes the hidden cash assets; the unclaimed bank balances; the proceeds of the public debt; and uncashed money profits that must be salvaged in the public interest in a costless and beneficial manner, and I submit my Copyrighted Financial Reform Formula to the government and people of Canada for this purpose.

This Bulletin is issued by
Frank O'Hearn,
Director,
THE PRIVATE RESEARCH BUREAU.

APPENDIX

HIGHLIGHTS OF BRIEF

According to the brief:

1. The Canadian banks are operating outside the existing laws governing their operations.

2. The Bank of Canada is secretly making huge profits from its currency operations without reporting the profits or paying it to the Receiver-General.

3. The Bank of Canada is destroying huge amounts of legal tender at the public expense, instead of depositing it or stockpiling it as cash assets, or replacing it from its secret stockpile of costless new currency.

4. The banks are all charging their customers for double the face value of the securities they sell and money they lend to them, all without reporting the clear profit accruing therefrom.

5. The banks are continually mutilating and destroying huge amounts of legal tender and substitute bank currency at their customers expense, and are doing so without reporting the losses and cash shortages resulting from their illegal methods.

6. The financial statements and reports issued by the banks are all grossly incorrect and false, and do not show their true financial condition as called for by the laws governing their operations.

7. The financial statements of the government as issued by the Finance Department officials are also grossly incorrect and false.

8. The banks fail to report as cash resources or reserves any of the deposit assets they get from their customers or any of the money they collect from them for repayment of loans or for securities they sold to them.

9. The cash savings of the public and the cash reserves of the Banks have been illegally depleted and destroyed to a total of over $18 billions to date.

10. This huge fraud on the public was made possible and was accomplished by bad bookkeeping and mis-management of our national money supply by the banking and Finance Department officials.

11. The banks are all in a bankrupt condition and are operating from a deficit position, instead of from a capital position as intended by the laws governing their operations.

12. The huge deficit in the cash resources of the banking sector of our Economy has been, instead, improperly foisted on to the government and people.

13. The government has already over-collected $18 billions in taxes and bond money from the public and turned it all over to the banks for free, to repay loans they never made to it, leaving us burdened with perpetual debt and deficits instead of capital equities.

14. The Minister of Finance and his Ottawa Establishment are grossly manipulating and misappropriating public funds and accounts and are imposing themselves as the "Power behind the Throne", secretly running our Economy as Dictators to our great loss and damage.

15. Specific charges are listed exposing the deceptions on the government and people of Canada by the Finance Minister and the Governor of the Bank of Canada.

16. The government has grossly failed to provide us with a sound and suitable international dollar for our foreign trade transactions and settlements.

In order to overcome and remedy the foregoing flaws in our financial system, and to salvage and get everybody a share in the $18 billions improperly and illegally extorted from us and destroyed at our expense by the Finance Department and banking officials, Frank O'Hearn has invented a Process, made a great discovery and developed a Formula for this purpose, which he proposes the government should encash, license, lease or buy from him so as to implement it in the public interest.

APPENDIX "GG"

A SCIENTIFIC SOLUTION TO CANADA'S ECONOMIC PROBLEMS

Mr. Chairman and members of the Finance, Trade and Economic Affairs Committee, I consider it a privilege to be afforded the opportunity of presenting, for your evalution, proposals for improving our Canadian Banking System. The proposed changes, which will alter the present and the suggested banking system, are of a two-fold nature. The one pertaining to creation, the other to the regulation, of our total money supply.

The creation of our total money supply should eventually become the duty and function of the Bank of Canada. The regulation of our money supply should be done scientifically, based upon the amount of purchasable production available in Canada.

In order to eliminate repetition, the submission I presented to the Royal Commission on Banking and Finance, April 12th, 1962, is attached as part of this document. This will enable the committee as a whole, or in part, to evaluate my findings of the present banking system, and the proposed changes which will be outlined in greater detail throughout the remainder of this submission.

Before we can properly analyze the proposed changes, and the effects they will have on Canada and Canadians, it is necessary to evaluate our present economy. To do this let us fix in our minds a map of this great country, with all its raw materials and natural resources.

Without raw materials and natural resources a country is handicapped. However, in Canada we are blessed in this respect, for we have plenty of both.

The raw materials and natural resources are of little value until they are transported to our factories and processed. Thus we must consider our transportation and manufacturing facilities.

We have an adequate transportation system. The highways, waterways, and railways, not to mention our air transportation, do a good job, and can be expanded if necessary.

In considering our manufacturing facilities, we find that many of our factories are operating below capacity, some closed down completely.

The rate of production of our factories is directly affected by two factors, other than raw materials and natural resources. The one being manpower, and the other the ability to sell the finished produce.

There is no shortage of manpower in Canada, for we have that undesirable condition where thousands of men and women are unemployed. Thus the slow down of our manufacturing facilities is caused by the inability to sell the finished produce.

The produce presently filling our stores and warehouses is made up of Canadian materials, and imports received in exchange for the same. Thus for all practical purposes, this purchasable production, presently filling our stores and warehouses, can be considered as Canadian materials. These materials came out of Canada, reaching from British Columbia on the west to Newfoundland on the east, from our farms, forests, factories, fiheries and mines etc., and were produced by Canadians individually and collectively.

The economy of our country depends on three factors, production, consumption, and the population. Individual Canadians, who collectively make up the population, being the most important aspect.

A high level of unemployment at a time when the factories are operating below capacity, such as we have in Canada at present, is a true indication of an undesirable economy.

The vast majority of Canadians are looking for guidance, from the various governmental bodies, to establish a desirable economy. A desirable economy being one which utilizes all modern methods of production, at the same time offering employment to all.

It is the purpose of this document to point out, and substantiate, that: "There is a national inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy"

Before substantiating the above statement, let us differentiate between demand and effective demand. In our society, a hungry person standing in front of a super-market has a demand for food. However, unless he, or she, has the necessary money to purchase the food available, the demand does not become effective. Thus before a demand can become effective one must have the necessary money, in one form or another, to complete the transaction.

The following will confirm that there is a national inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy. Let us figuratively purchase one-third (1/3) of the materials presently filling our stores and warehouses, and by continued purchases attempt to maintain it at that level on a per capita basis. As soon as this is done, in a competitive free enterprise society, the merchant will re-order from the warehouses, and the warehouses from their suppliers. This will stimulate the economy, speed up the factories, supply jobs for the thousands presently unemployed, and bring about the condition most Canadians are looking for, a desirable economy.

Since there is a national inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy, let us consider why we do not have this economic condition at the present time. Many individuals and the various governmental bodies in Canada would purchase more of the national inventory, which Canadians have produced individually and collectively, providing they did not have to borrow the money at high rates of interest and go deeper into debt. Others have neither the money nor the credit facilities to enable them to purchase the materials they need. Thus, the merchandise remains unsold in the stores and warehouses. In reality, it is the lack of purchasing power (money) in the hands of the would be consumers which is causing our economic problems.

Here-after in this brief, the proposed changes in the banking system will be referred to as the solution. The application of which will require:

(a) That the money supply of our country be regulated, and determined by a given national inventory level of purchasable production, which will be calculated scientifically and at regular intervals as required.

(b) That the Bank of Canada become the sole creator of all additional money supply needed in Canada.

(c) That all additional money supply, created by the Bank of Canada, be channelled through a National Credit Account.

(d) That all monies in the National Credit Account be allocated to the needs of the Canadian people, according to the will of the people, as expressed through their elected Federal representatives.

When the solution is implemented, any time the national inventory level of purchasable production is above a given level, this will be justification for increasing the money supply by an amount equal to the value of the inventory above the given level. The additional money will be created by the Bank of Canada, after being authorized by the Parliament of Canada, and deposited into a National Credit Account. Should the inventory of purchasable production go below the given level, the money supply will be reduced by an equitable taxation system and cancelled out of existence.

It has been calculated that a national inventory level of purchasable production, equal to approximately two-thirds (2/3) of the present amount, will bring about a desirable economy. However, should this figure be either too great, or too small, the correct level will be readily ascertained when the principals of the solution are applied.

When the solution is in operation it will enable the Federal Parliament to finance a Municipal Development Fund from the National Credit Account. The Municipal Development Fund will in turn be able to finance public services, of the various levels of government, at a low rate of interest. The rate charged will only need to be enough to cover the administration costs. When public services are financed in this manner, it will increase the amount of financial credit available for competitive free enterprise to develop the natural resources of our country.

The application of the solution will also make it possible to pay added benefits to old age pensioners, family allowances, and grants for health and educational purposes. These additional benefits will be regulated and determined by the increased money supply, which in turn will be regulated by Canadian production.

One of the most notable changes, with the implementing of the solution, will be in the field of taxation. Taxes at all levels of government will be reduced, because of the reduction in the interest charges on expenditures for public services.

Let us take the financing of a proposed new school, presently under consideration, to illustrate the reduction in taxation that will be made possible with the advent of the solution. The estimated cost of constructing the new school is $300,000.00. The taxpayers have been informed that financing, by the present debenture method, the school will cost $555,000.00 over a period of twenty (20) years. When the solution is a reality, a school, such as the one just mentioned, will be financed from the Municipal Development Fund at a rate of interest just enough to cover the administration costs. This will bring about a reduction in taxation of at least $200,000.00 over a period of twenty (20) years, for the taxpayers concerned. When this method of financing public services is utilized throughout the Dominion of Canada, it is plain to see it will constitute a substantial reduction in general taxation.

When the solution is operational, the above mentioned allocation of monies, from the National Credit Account by the Federal Parliament, will be achieved without further national debt and while lowering taxation. This, along with the fact that a desirable economy will become a reality, is ample justification to make the necessary changes in the proposed Bill C-102. These changes, being basic, will have far reaching effects, and assure a prosperous and growing economy.

Since the Bank of Canada will become the sole creator of all additional money supply in Canada, the amount of chartered bank credit now in existence, (which is part of our money supply), must not be increased, regardless of any future action taken by the Bank of Canada.

Now let us figuratively apply the solution to our present economy and evaluate the results. We will let the market value of the present national inventory level of purchasable production be represented by $3X,000,000,000,00. It is necessary to use an unknown quantity "X", in the above figure, for the actual market value of the inventory has not been compiled. However, by this method we will be able to evaluate the basic benefits which will be derived for Canada and Canadians, with the solution in operation.

Since it has been calculated that two-thirds (2/3) of the present inventory level of purchasable production, which, when maintained by effective demand, will bring about a desirable economy, the application of the solution will justify the Federal Parliament instructing the Bank of Canada to create an additional $1X,000,000,000.00. This newly created $1X,000,000,000.00 will become the initial entry in the National Credit Account.

The allocation by the Federal Parliament, of this money from the National Credit Account, along with all other monies which will be deposited in the account because of increased production, will assure a lasting and scientific correction to our economic problems. The Canadian people will be guaranteed, at all times, sufficient money to buy the purchasable production available in Canada. The purchasable production available, being the end results of the efforts put forth by Canadians individually and collectively.

When the solution is applied it will make increased production, be it caused by automation, cybernation, or otherwise, a real blessing to Canada and Canadians. It will overcome, once and for all times, the stumbling block of distribution, which is presently handicapping the economy of the western world, of which we are a part.

The implementing of the solution will assure that the chartered banks, which perform a necessary service in our society, will remain a competitive free enterprise endeavour. The only change being that the Bank of Canada will become the sole creator of all additional money supply needed in Canada, and the money supply will be regulated and determined by a given national inventory level of purchasable production.

When we consider that the proposed changes in the Bank Acts, up for revision, will bring about a desirable economy, without further national debt, and while lowering taxation in general, this is justification for the members of this all important committee to give the document in hand their very careful

consideration, and eventual endorsation. However, there is one more aspect which must be taken into consideration, our foreign trade.

When the solution is applied, and our national money supply is scientifically regulated according to purchasable production available in Canada, this will enable supply and demand to regulate the value of the Canadian dollar on the world market, without any danger of national economic stagnation. It will also enable the reduction, if not the discarding, of our tariffis and duties. The end result will be unrestricted trade between Canada and all other nations of the world, with comparative advantages for all concerned.

To understand foreign trade one has to have a working knowledge of foreign exchange, and what determines the value of the Canadian dollar, in relation to currencies of other countries, when the rate is not pre-set. Transfer of monies from one country to another, through the foreign exchange, can be compared to an auction sale, where supply and demand regulates the price. When Canadian dollars are plentiful, at the foreign exchange, other countries desiring our money bid low, forcing the value of the Canadian dollar down. When Canadian dollars are scarce, on the exchange, the opposite condition exists, and the value of the Canadian dollar increases on the world market.

The main determining factor regulating the amount of money to be exchanged, for currencies of other countries, is the buying and selling of goods and services between nations. On the world market, as on the national market, it is much more convenient to exchange commodities using money, as a medium of exchange, than it is to use the barter system. Thus when one country buys from, or sells to another, an exchange of currencies is necessitated. It is the transfering of currencies, commonly called buying and selling of money, which determines the value of our currency, in relation to that of other countries, on the world market, when the exchange rate is not pre-set.

The value of our money, on the international market, has a direct bearing on the export and import business of Canada. This is readily apparent when one evaluates the effect of an unbalanced dollar, both high and low, with our neighbour south of the border. What holds true, in this respect, with the United States of America, is also true with all other nations of the world.

Consider the effect providing our dollar was only worth 75 cents in the U.S.A. Under these conditions we would be obliged to pay $1.25 Canadian currency for $1.00 worth of American produce, which would have a tendency to retard our imports. However, under the same conditions the Americans would only have to pay 75 cents American currency for $1.00 worth of Canadian produce and would have the tendency to stimulate our exports.

Now consider the effect providing our money was at a premium and the American dollar was only worth 75 cents in Canada. The above mentioned conditions would reverse themselves. The important aspect of these international trade patterns is that, with any given change in the import and export ratio, there is a corresponding change in the foreign exchange ratio of the countries concerned, again providing that the currency ratio has not been pre-set. Thus it is not difficult to prove, as is taught in economics, that by allowing our country's currency to find its own level on the world market, we can balance our exports and imports without duties and tariffs.

The very idea of being able to exchange goods and services, to the mutual benefit of all concerned, has been the chief objective of mankind, and one of the highest ideals, since the earliest recorded history. The application of the solution will enable this to become a reality throughout our entire nation, and, at least to a degree, in the countries with whom we buy and sell commodities.

Mr. Chairman and members of this standing committee of Finance, Trade and Economic Affairs, the establishing of a desirable economy in Canada will be one of the greatest contributions that can, and must be made, to solidify our nation. It is the answer to the Honourable Prime Minister's war on poverty, and will assure that Canadians, one and all, can have the best health and educational system, which is physically possible to produce.

Respectfully yours,

Melvin A. Roat.

CANADIAN BANKING

PRESENT IMPERFECTIONS EXPOSED AND WORKABLE CORRECTIONS PRESENTED

The present imperfections in our Canadian money and banking system are of a twofold nature. One concerns the manner in which our money supply comes into existence; the other the lack of relationship between the amount of money in circulation (money times velocity) and the production of our country.

This brief deals with these imperfections and suggests changes which could and should be made in our banking system. These changes would enable the Federal Government to correct our economic problems without further debt and/or taxation and eliminate once and for all recessions, depressions and inflation in Canada.

We, in this country, are fortunate to be living under a form of democracy, where individuals have the opportunity to express their thoughts and present their research on all subjects affecting the management of our country. In presenting my research and suggested corrections in our Canadian Bank Act, I avail myself of this opportunity.

As a boy back in the hungry thirties I could never understand why my father, a locomotive engineer willing to do any kind of work, could not get a job. Because he was without work we had insufficient money to purchase the food and clothing which were available. I was told this condition existed because there was a scarcity of money.

Shortly thereafter war was declared and the scarcity of money disappeared. There has always been plenty of money for war time purposes, but very often there is no money to alleviate human suffering in peace time. Upon returning to civilian life I continued to ponder the subject of money; WHERE DOES IT COME FROM? WHO OR WHAT DETERMINES ITS SUPPLY? I was determined to learn and I have learned the answers to these questions.

In 1954 it was drawn to my attention that BANKS CANNOT AND DO NOT LEND OUR DEPOSITS. When Graham Towers was governor of the Bank of Canada he assured the people that; "The banks cannot, of course, loan the money of their depositors. Now what the depositors do with these savings is something quite beyond the control of the banks." (Taken from the 1939 Banking and Commerce Report, page 455.)

This truth, which is contrary to the popular belief of banking, prompted me to make a detailed study of our money and banking system and compile this brief.

A brief is of little value unless the statements in it are accurate. I am prepared to substantiate all statements contained herein, using the Bank of Canada Statistical Summary, the Canadian Bank Act and other legal documents for this purpose.

Having learned that THE BANKS DO NOT LEND OUR DEPOSITS it raised a very important question in my mind; HOW CAN THE BANKS AFFORD TO PAY US INTEREST ON OUR DEPOSITS WHICH THEY DO NOT LEND? This appeared paradoxical and raised another question in my mind; WHAT DO THE BANKS LEND?

In my studies I discussed, with a noted Canadian economist, the statement which appears in Quick Canadian Facts, 16th edition, page 141; "The chartered banks are required to keep a minimum of eight percent of their Canadian deposit liabilities in the form of deposits with, and notes of, the Bank of Canada." This eight percent of Canadian deposit liabilities is commonly called the cash reserves of the chartered banks and hereafter in this brief will be referred to as cash reserves. In a like manner the Canadian deposit liabilities will be referred to as deposit liabilities.

The statement in Quick Canadian Facts is correct. It is derived from sub-section one of section seventy-one of the Canadian Bank Act, as revised in 1954. THIS PROVISION IN THE BANK ACT ENABLES THE CHARTERED BANKS TO LEGALLY CREATE OUR MEDIUM OF EXCHANGE CALLED MONEY, PAY US INTEREST ON OUR DEPOSITS—WHICH THEY DO NOT LEND—AND OPERATE AT A CONSISTENT PROFIT.

Having learned this, it was necessary to ascertain how the chartered banks come into possession of their cash reserves and what makes up their deposit liabilities.

Cash reserves are increased every time we deposit Bank of Canada notes (Canadian currency) with the chartered banks. Cash reserves are also increased every time the Bank of Canada purchases securities on the open market.

The purchasing of securities, Government of Canada or otherwise, by the banks are nothing more than the granting of loans. The securities (bonds or treasury bills) are the collateral which guarantee the repayment of these loans.

The deposit liabilities of the chartered banks consist of our personal savings plus bank loans and/or the purchase of securities by the chartered banks, which appear as deposits in someone's account.

To elaborate on the statement concerning cash reserves, let us consider the deposit of $100.00 in Canadian currency with the chartered banking system. It

increases the bank's supply of Bank of Canada notes by $100.00 which constitutes a part of its cash reserves. THUS WE LEARN THAT EVERY DEPOSIT OF CANADIAN CURRENCY IN THE CHARTERED BANKING SYSTEM INCREASES THEIR CASH RESERVES BY AN EQUAL AMOUNT.

Now let us consider how the cash reserves of the chartered banks are increased when the Bank of Canada purchases Federal Government securities, be it bonds or treasury bills. This can best be understood when we realize that THE BANK OF CANADA IS EMPOWERED TO CREATE MONEY FOR THE PURCHASE OF SECURITIES AND THERE IS NO GOLD NEEDED TO BACK CANADIAN MONEY. When the Bank of Canada purchases Federal Government securities it pays for them by crediting the Government of Canada's account, at the Bank of Canada, with newly created money. However, the majority of the Government of Canada's money is kept on deposit with the chartered banks. Thus, this newly created money can be, and is, transferred to the Government of Canada's account with the chartered banks. The transfer, which takes place at the Bank of Canada, is from the Government of Canada's account to the chartered banks' account. This transfer increases the chartered banks' deposits with the Bank of Canada and raises their cash reserves by an equal amount. James E. Coyne, while governor of the Bank of Canada, made it very clear that the purchase of securities by the Bank of Canada increases the cash reserves of the chartered banks.

The cash reserves of the chartered banks are made up of money created by the Bank of Canada and deposited with the chartered banks by the Canadian people individually and collectively.

To elaborate on the statement of what makes up the deposit liabilities of the chartered banks; let us consider again the deposit of $100.00 with the chartered banks. This appears as a deposit in someone's account and is part of their deposit liabilities. Now let us consider what happens when the chartered banks grant loans or purchase securities. The borrower puts up the collateral, which guarantees the repayment of the loan, and the bank credits the borrower's account with the amount of the loan. Thus bank loans, or the purchase of securities by the banks, increase the deposit in someone's account and are part of the banks' deposit liabilities. The strange thing is THE GRANTING OF A LOAN OR THE PURCHASE OF A SECURITY, BY THE BANKS, WHICH CREATES A DEPOSIT, NEVER LOWERS ANY OTHER DEPOSITS, SINCE OUR TOTAL MONEY SUPPLY IS MADE UP OF CURRENCY PLUS BANK DEPOSITS; IT NECESSARILY FOLLOWS THAT EVERY BANK LOAN, WHICH CREATES A DEPOSIT, INCREASES OUR TOTAL MONEY SUPPLY. (More of this will be mentioned later.)

While discussing Canadian banking, with other leading economists, the following was confirmed as being corrrect:

> "The deposit of $100.00 in Canadian currency, as a savings in the chartered banking system, increases their cash reserves by $100.00. This increase in cash reserves enables the chartered banks to create and loan an additional $1,150.00, which appears as a deposit in the borrower's account."

This expansion of bank credit by the chartered banks is affirmed in the Bank of Canada Statistical Summary and can be proven when the provisions of

the Bank Act are applied. THE $100.00 DEPOSITED IS THE 8 PER CENT CASH RESERVE, REQUIRED BY LAW, OF THE $1,250.00 DEPOSIT LIABILITIES INCURRED BY THE BANKS IN THIS TRANSACTION.

The one aspect of Canadian banking, which confuses most people, is the fact that banks cannot and do not lend our deposits. One of our leading Canadian economists verified this statement as follows:

> "Supposing you deposited $100.00 in Canadian Currency in the bank. This appears as a deposit in your account and is part of your assets. It is an asset of yours and a liability of the bank. Of course we all know banks cannot lend liabilities."

In my research I made a detailed study of the Bank of Canada Statistical Summary, particularly where it applies to the amount of money created by the Bank of Canada and the amount of credit created by the chartered banks. The Summary verifies the fact that our personal savings, with the chartered banks, are in excess of $7,000,000,000.00. It also shows that the total amount of legal tender in our country, including all currency, is approximately $3,000,000,000.00. THIS CAUSED ME TO WONDER WHAT WOULD HAPPEN IF WE DECIDED TO WITHDRAW ALL OF OUR SAVINGS AT ONE TIME. This appears to be another paradox. However, in view of the fact that the banks cannot lend our deposits, we should be able to withdraw all of our savings at one time.

While discussing Canadian banking with an economic adviser of the Federal Government, I asked the following question:

> "How could the Canadian people hope to be able to get their savings of $7,000,000,000.00 from the chartered banks, providing they all decided to withdraw them at one time, when there is less that $3,000,000,000.00 of Canadian currency in existence?"

He suggested that my answer to this question should come from the Bank of Canada and arranged a conference for me with its research department.

The research department assured me my reasoning was correct: "MOST OF OUR PERSONAL SAVINGS ARE NOTHING MORE THAN BANK CREDIT CREATED BY THE CHARTERED BANKS AND LOANED TO THE PEOPLE INDIVIDUALLY AND COLLECTIVELY AT INTEREST. THE LOANS APPEARED ORIGINALLY AS DEPOSITS IN THE BORROWERS' ACCOUNTS, BUT BECAUSE OF BUSINESS ACTIVITIES, HAVE BEEN TRANSFERRED FROM THE BORROWERS' ACCOUNTS TO OUR SAVINGS ACCOUNTS." They suggested that further questions on money and banking could be put in letter form and sent to the Bank of Canada.

The Bank of Canada has affirmed by letter, THAT BANK LOANS APPEAR AS DEPOSITS IN THE BORROWERS' ACCOUNTS WITHOUT LOWERING ANY OTHER DEPOSITS. This confirms the statement made earlier, THAT EVERY BANK LOAN INCREASES OUR TOTAL MONEY SUPPLY. Our total money supply, of approximately $15,000,000,000.00, is made up of currency plus bank deposits.

Let us consider the manner in which Graham Towers, when he was governor of the Bank of Canada, explained the creation of money and/or bank credit, by the chartered banks. On page 285 of the 1939 Banking and Commerce Report it is recorded that Mr. Towers agreed to the statement; that the chartered banks

do not lend money, but bank credit, a substitute for money. One of the questions asked was: "THEN WE AUTHORIZE THE BANKS TO ISSUE A SUBSTITUTE FOR MONEY?" Mr. Towers answered: "YES, I THINK THAT IS A FAIR STATEMENT OF BANKING."

On page 79 in the Book "Understanding the Canadian Economy", which is used as an authorized text in many Canadian schools, under the heading "the creation of money by banks," the following appears:

> "We have already learned that the most important kind of money is credit. The most important kind of credit is the credit created out of thin air by the banking system. Eighty percent of the volume of business in Canada uses money that isn't there. Banks lend it out of nowhere to people, and when it is paid back it returns to nowhere. It can't be seen, yet it can make the difference between full employment and mass unemployment. Most of the revenue of banks is interest on money that does not exist."

Let us consider the expansion of bank credit, made possible and legal by our Bank Act, and the profits the chartered banks can derive from such transactions. This will be considered in three phases. First, the deposit of $100.00 in Canadian currency with the chartered banking system, and the gross profit they can make on our savings. Second, the deposit of an old age pension cheque with the chartered banks, and the expansion of bank credit this makes possible. Third, the purchase of Federal Government securities by the Bank of Canada and the chartered banks, as it happened in 1958.

As previously illustrated, the deposit of $100.00 in Canadian currency with the chartered banking system is sufficient cash reserve for the chartered banks to create $1,150.00 of bank credit and lend it to the Canadian people at interest. This means that $100.00 of Canadian currency on deposit with the chartered banking system enables the chartered banks to collect interest on $1,150.00 of bank loans. When the $3.00 yearly interest paid on the $100.00 savings deposit is deducted from the $69.00 interest charged on the $1,150.00 loan, we find that THE CHARTERED BANKS CAN MAKE A GROSS YEARLY PROFIT OF $66.00 ON $100.00 OF CANADIAN CURRENCY DEPOSITED WITH THEM FOR SAFE KEEPING—WHICH THEY NEVER OWNED IN THE FIRST PLACE.

What happens when a senior citizen deposits his, or her, pension cheque with the chartered banking system? The $55.00 appears as a deposit in the elderly person's bank account and INCREASED THE CASH RESERVES OF THE CHARTERED BANKS BY $55.00, FOR ALL OF THESE PENSION CHEQUES ARE CLEARED THROUGH THE BANK OF CANADA. The transfer which takes place, at the Bank of Canada, is from the Government of Canada's account to the chartered banks' account. This transfer increases the deposits of the chartered banks with the Bank of Canada, without lowering their supply of Bank of Canada notes. Since the cash reserves of the chartered banks are made up of deposits with, and notes of, the Bank of Canada, the deposit of a $55.00 pension cheque with the chartered banking system increases their cash reserves by an equal amount. This increase of $55.00 in the cash reserves of the chartered banks enables them to create an additional $632.50 of bank credit and lend it to the Canadian people at interest.

Our total money supply was increased by approximately $1,600,000,000.00 in the twelve month period ending October 1958. This increase was in the form of extra money needed to purchase additional direct and guaranteed funded securities of the Federal Government. The majority of these securities were Government of Canada bonds. The investing public outside the banks were reluctant to purchase these securities. Thus the Bank of Canada commenced to purchase a percentage of the Government of Canada bonds. Since the purchase of securities by the Bank of Canada increases the cash reserves of the chartered banks; the action taken by the Bank of Canada, in this instance, increased the cash reserves of the chartered banks sufficiently for them to increase their bank credit by $1,300,000,000.00 and purchase the remainder of the Federal Government direct and guaranteed funded securities, by merely increasing the figures in their own ledgers. CANADIANS ARE BEING TAXED IN EXCESS OF $40,000,000.00 PER YEAR TO PAY THE INTEREST ON THESE SECURITIES PURCHASED BY THE CHARTERED BANKS, WITH CREDIT CREATED OUT OF THIN AIR.

We are being taxed in excess of $800,000,000.00 per year to pay the interest on our national debt, which has been incurred over the years because of our imperfect money and banking system. Approximately fourteen cents out of every tax dollar we pay to the Federal Government, whether it be direct or indirect taxation, is used to pay the interest on this debt.

Our total money supply comes into existence in the manner which has been put forth. WE CANADIANS, INDIVIDUALLY AND COLLECTIVELY, ARE PAYING INTEREST TO THE CHARTERED BANKS ON APPROXIMATELY 80 PER CENT OF OUR TOTAL MONEY SUPPLY, WHICH THEY, THE CHARTERED BANKS, CREATED OUT OF THIN AIR BY WRITING FIGURES IN THEIR OWN BOOKS. I would like to mention here that IT IS NOT THE CHARTERED BANKS WHICH ARE AT FAULT. THEIR CREATION OF MONEY AND/OR BANK CREDIT IS LEGAL IN CANADA. IT IS THE BANKING SYSTEM ADOPTED BY OUR FEDERAL GOVERNMENT WHICH IS WRONG. OUR PRESENT BANKING SYSTEM CAN AND SHOULD BE CHANGED.

According to section #91 of the British North America Act THE FEDERAL GOVERNMENT HAS THE RIGHT, AND IT IS THEIR RESPONSIBILITY, TO CREATE OUR MONEY AND REGULATE OUR BANKING SYSTEM. IT IS QUITE EVIDENT THAT THE PRESENT BANKING SYSTEM HAS FAILED TO SERVE THE BEST INTERESTS OF THE CANADIAN PEOPLE.

The imperfections in our present money and banking system, and the corrections which could, *and should,* be made in the same, are better understood when we consider the following facts pertaining to economics:

(a) "A money system is good and without it we could not have reached the standard of living that we now enjoy."

(b) "Money has but one function, to assist in the distribution of materials from the producer to the consumer, either now or at some time in the future."

(c) "The only reason for production is consumption."

(d) "The consumer is equally as important as the producer, for without consumption there is no need for production.

(e) "Money is but a medium of exchange and in itself has no real value."

(f) "It is the production of our country which gives our money its real value."

(g) "To have a balanced economy the amount of money in circulation (money times velocity) must be equal to the production of our country."

(h) "Money, the life blood of our nation, has to be in circulation to perform the function for which it was created."

(i) "The purpose of society is to gather collectively, for consumption individually, the product of our intellectual, inherited and natural resources."

Our money and banking system should be based upon the economic formula: "MONEY TIMES VELOCITY EQUALS PRICE TIMES TRANSACTION." To put it in simpler terms: "THE AMOUNT OF MONEY IN CIRCULATION SHOULD BE EQUAL TO, AND DETERMINED BY, THE DESIRABLE AND FOR SALE PRODUCTION OF OUR COUNTRY." THE BANK OF CANADA, OUR CENTRAL BANK, SHOULD BE THE SOLE CREATOR OF OUR MEDIUM OF EXCHANGE CALLED MONEY.

I have been assured by other leading economists that the Bank of Canada can carry out the tasks it would be called upon to perform, when the following proposed changes are made in our Canadian Bank Act.

The Federal Government should amend the Bank Act and bring the chartered banks to operate on 100 per cent cash reserve. The change from 8 per cent to 100 per cent cash reserve will have to be done progressively over a period of time to maintain a stable economy. WHEN THE CHARTERED BANKS ARE OPERATING ON 100 PER CENT CASH RESERVE THE BANK OF CANADA WILL BE THE SOLE CREATOR OF OUR TOTAL MONEY SUPPLY.

Canadians operating within a competitive free enterprise system, wherever possible, should determine the production of our country. The Bank of Canada, working in co-ordination with the Federal Government, should issue our total money supply. The supply should be regulated so that the amount of money in circulation (money times velocity) would always be equal to the desirable and for sale production of our country. This would guarantee Canadians a balanced economy.

Lest anyone has the thought that these proposed changes would allow the Federal Government or the Bank of Canada to turn on and off our money supply at will, and possibly cause conditions of worthless money, it should be emphasized, THAT WHEN THE PROPOSALS IN THIS BRIEF ARE IMPLEMENTED, IT WILL BE THE PRODUCTION OF OUR COUNTRY WHICH WILL DETERMINE OUR MONEY SUPPLY. The Federal Government and the Bank of Canada will simply be administering this portion of our affairs. IN ORDER THAT WE CANADIANS HAVE TRUE DEMOCRACY ALL MONEY CREATED BY THE BANK OF CANADA SHOULD BE DISTRIBUTED AS DIRECTLY AS POSSIBLE TO THE CANADIAN PEOPLE. THIS DISTRIBUTION SHOULD BE DONE IN ACCORDANCE WITH THE WILL OF THE PEOPLE. THE FEDERAL GOVERNMENT COULD, AND SHOLD, OPERATE ON A PAY AS YOU GO BASIS BY MAKING THE PROPOSED CORRECTIONS IN OUR PRESENT BANK ACT.

When the Federal Government implements these changes in our money and banking system, we will have economic freedom, which was the main objective of Sir John A. MacDonald. We will have control of the issue of our currency and credit and able to enjoy true democracy along with sovereignty of parliament, as was suggested by the late Right Honourable MacKenzie King.

Last, but not least, when these change are made, MONEY WILL BECOME OUR SERVANT INSTEAD OF OUR MASTER.

I deem it a privilege to have been able to present this brief to the Royal Commission set up by the Right Honourable John Diefenbaker to re-evaluate our present money and banking system.

Respectfully yours,
Melvin A. Rowat,
Elmvale, Ontario.

APPENDIX "HH"

SUBMISSION

to

The Parliamentary Committee

on

Finance, Trade, & Economic Affairs

by

Harry H. Hallatt

Honourable Members of the Parliamentary Committee on Finance, Trade, and Economic Affairs:

I am pleased that all of these subjects come within the purview of your enquiry, since all of these matters should, indeed must be direct responsibility, and under the control of the government of Canada.

I will say at once that financial control is the key to the proper administration of our economic and social affairs, and that until it is exercised by our government, all talk of securing and maintaining economic stability, is, to use MacKenzie King's phrase, idle and futile.

Mr. Chairman: We have made a break-through in the analysis and understanding of our economic and social problems, and in their solutions. We have learned that we have been "all wrong" in the administration of our financial system. We have erroneously allowed private institutions to create and cancel our money units, primarily in their own interests, rather than in the best interests of all citizens.

We have learned that money is not, never was, nor can be gold, silver, wampum or any other substance; that the so-called gold standard was in reality a gold combine—the daddy of all combines.

Money is a price language in which we express values in establishing a basis of exchange of our specialized production and services, and our money units become debt contracts which must be fulfilled and discharged as we consume our production, and as our services are consumated.

Our money system is just a service, and is worth, like any other service, the mental and manual labor cost of operating it in public enterprise, and plus a competitive profit when used in private enterprise, with its attendant risks.

This means that the issuance and cancellation of money used in public enterprises, through the financial departments of government at all levels, for financing all government capital projects and housing, none of which is any part of our private enterprise structure, will cost less than we are now paying to advertise and sell bonds, and less the interest we are now paying, and that competition will keep the service cost of financing private enterprise stable, when private institutions are no longer allowed to create money. I am taking it for granted that all members of the committee are aware that our private banks

create our money supply; that they thus have the advantage of creating all the money they lend, and that they have the control advantage of calling in loans and destroying money at will.

It will be clear that we will not need to worry about the bank interest rate when the banks cease to have the advantage of creating all the money they lend. They will have to compete with other lenders on equal terms. They will no longer be able to call in and destroy other lender's money.

Mr. Chairman, the Committee should be able to "take it from here" as the saying goes, but I suppose there will be some who will still ask where the money is coming from for medicare, for welfare, for pensions, for housing, schools, hospitals and many other needs and wants, and of course the answer is that money has very little to do with it—not more than theatre tickets have to do with producing a show, or than the records in a factory office have to do with the production in the factory. We can have all the money we have the man power to use.

Medicare, pensions, and all other benefits do not cost money. They only cost work, but money costs too much work, and therein lies our difficulties. We can bestow all the benefits we care to provide with our labors. In the final analysis, money is not a means of providing these benefits. Our savings are mostly claims on unpaid-for durable wealth—public structures, housing, factories, office buildings, churches, and many other such structures. Current benefits must come out of earnings in current production and services if economic stability is to be maintained. This dictates that we must have regard for how much time we can afford to spend in producing public durables, and how much time we wish to spend producing current needs and wants. It is not a money problem. It is a production and service problem. If people with lots of money were suddenly to become generous, and were to donate hundreds of millions of dollars for medicare, pensions, and other benefits, we would have price hikes that would really bring house-wives out on parade; too much money chasing too few goods. It would be just as bad if we tax too much money out of incomes for these purposes, without a corresponding increase in the production of consumer goods.

All this, of course points up a basic flaw in the private creation and issuance of money into any activity that will pay the private money manufacturers an interest profit, regardless of whether the basic needs of the people are met. There can be no solution to our chronic economic and social problems as long as private institutions have the power to manufacture and destroy our money supply to their own advantage.

The B.N.A. Act provides that our government shall coin and regulate the value of money. Unfortunately, the Fathers of Confederation did not understand the nature of money. They considered hard money—coins of gold and silver and copper—to be the real money, and they considered the money the private banks created—book money—to be bank credit. They did not know that the so-called bank credit was real money. They did not know that the banks did not extend their own credit, as represented, or that the banks monetized the assets, or credit of the borrowers, in short, that they created and loaned to the progressive borrowers the borrowers own money.

You, no doubt, have heard of people who had schemes for doing away with money. I want to put on record the fact that we cannot do away with money

unless we do away with arithmetic—unless we stop the exchange of goods and services, and expunge numerals from our language.

Conversely, if we were all honest, and had infallible memories, we could have a money system without even a pencil to write down the money unit figures. If understanding that simple postulate bothers you, you may have difficulty in understanding the simple solutions to our chronic economic and social problems. It cannot be over emphasized that money never was nor can be anything but number words, and that is what we are using now, as you should know if you have ever had a bank pass book.

I want to emphasize the fact that we can correct the errors we have been making in administering our money system without adversely disturbing our production and service activities, and without adversely affecting our private enterprise system, but rather with gain for every one, even the money lenders. All earnings, including profits, must come out of production and services, and if we put first thing first in our endeavors, there will be more of everything for everybody.

Making the change-over from private banker money to national money can be done so smoothly that people who do not read or listen to the financial news might not be aware of its happening.

In talking my proposals for economic betterment over with Dr. T. R. Vout, Mr. Diefenbaker's economic advisor, he said, "Hallatt you are a hundred and fifty years ahead of us." Give me the use of the airways and I will tell the people the truth about our money system in a hundred and fifty minutes, and the great majority of them will understand. Do you say that the people should be denied the opportunity to hear the truth about our faulty oppressive, money system, and what can be done about it? I ask that of the Committee on Broadcasting.

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3

OUR DUAL ECONOMY

A CAPITAL IDEA

All of our economic problems and most of our social problems are due primarily to the failure of our political, educational, and business leaders to perceive that we have developed a dual public and private enterprise economy, and that these enterprises must be financed on different bases.

Popes and poets and politicians have decried usury down the centuries, but it has remained for me to devise a system of separating the financing of public enterprise and private enterprise whereunder public works and housing, which are no part of our private production and private service structure, will be financed at the administrative cost of such financing, and private enterprise will be financed with private savings on a competitive basis.

Happily the economies of truly democratic, private enterprise countries lend themselves perfectly to a system of using the commonly owned units of durable wealth and housing as bases for all needed money, which can be issued and recalled on a sound amortization basis at a small fraction of one percent per annum.

This new idea, this new system of financing will enable us to provide public utility facilities by paying for them once, not over and over in high, unnecessary interest charges every few years, and will enable every family to own a comfortable home by paying for it also only once.

The financial facilities necessary for the administration of this new system are now in operation—the central bank, the financial departments of our federal, provincial, and municipal governments, and our private banks. Nationally, no new financial institutions are required. Internationally, we need only an International Clearing House.

The private banks will then become exactly what the private bankers have always represented them to be, and what the people have always understood them to be, namely, repositories for the savings of the people, and money loaning and money transfer agencies, but they will cease to be money manufactories.

4

Change in banking practice

The one slight change in banking practice that will be made in putting this new system of financing into operation is that the central bank will create all the money required. Issuing money for the financing of all public enterprise capital projects and for housing will provide ample money for all purposes.

Instead of the private banks creating and cancelling money a half dozen to a dozen or more times for each item of goods produced, as it is processed to completion, our money will be issued by the central bank for financing the construction of completed, essential, durable units of wealth—our homes, schools hospitals, water and sewer works, power, lighting, transportation, and other public utility capital projects—and it will be cancelled on a safe and sound amortization basis.

Our money supply will automatically expand as our economy expands. Not a dollar will exist that does not have sound national wealth backing, and everyone will know from periodic statements of our national affairs exactly what is behind our dollars.

The easy change over

The change over from private bank money to national money can be made without adversely affecting our private financial, production, distribution, and personal service activities in any way. Indeed, it can be done with immediate gain for everyone. There will be employment for all willing and able workers. There will be an immediate increase in production, which will mean more of everything for everyone. Poverty in the midst of plenty will cease.

The central bank, in co-operation with the financial departments of government at all levels, will issue money to retire all internally held government bonds and debentures, and mortgages on ordinary homes, at the real value of such securities, and to finance all future public enterprise projects, and all future housing of a standard commensurate with our attained standard of living. Each branch of government will be entitled to issues of its requirements of money for these purposes in accordance with, and to the extent of its ability to retire, on a safe and sound amortization basis, all such advances made to and through it.

The original issuance by the central bank of all money needed to finance public utilities and housing, and its automatic withdrawal on a sound yet flexible amortization basis, will be front page and daily broadcast information for all citizens. Maintaining economic stability cannot be more simple. Instead of trying to maintain economic stability by manipulating the interest and tax rates, slightly increasing the rates of amortization of the bases of the money supply will reduce spending and increase public property and home ownership—not profits to the money lenders. To induce spending, the rates of amortization can be lowered. Taxes will be levied as always intended to pay for current services.

5

In making the change from private bank money to national money, the private banks will arrange with depositors of national money to borrow it on bank debentures redeemable at times stipulated therein, and will exchange it for deposits of money they created, which they will then cancel as they now cancel such money when it is paid into a bank by a borrower to pay off a bank loan—the reverse process of creating such money. The banks now borrow money they created. They will pay off such loans with loans of national money, and cease the private manufacture of money.

The new national money cannot be cancelled by the private banks. It can only be cancelled by being paid into the central bank in amortization of the bases of the national money supply.

Procedure not inflationary

The increase in the primary money supply resulting from the national issuance of the volume of money required to retire the bonds and debentures, and mortgages on homes, as above mentioned, will not cause inflation. These documents are secondary moneys. The people who hold them could spend them now as easily as they will be able to spend the money they will get for them.

Actually there will be less paper purchasing power in existence when the bank money, government bonds and debentures, and privately owned transferable mortgages on homes are cancelled. These secondary moneys have a built-in inflationary gadget—high, unnecessary interest—which doubles their purchasing power every few years without effort by or risk to the holders, and without production.

But it is not the amount of money in existence that is of first importance in maintaining economic stability, contrary to the brain-washing the money dealers have given us. It is the amount of money put into and kept in circulation to finance the production of needs and wants that determines and regulates the price level.

The situation will be that we will have to guard against a deflationary trend because hundreds of millions of dollars of interest will be cut off. People will not spend their savings as freely as they now spend the unearned interest on bonds and debentures. This was the case in the depression of the thirties. There was enough money in saving deposits to have caused wild inflation if the people had spent their savings freely. But people acquire a habit of saving. Frugal people spend only part of their income normally. When earnings are down they curtail spending.

6

And let no one trot out "the flight of capital" bogey when we cut off opportunities for private investment in public enterprises, and in mortgages on homes. Canadian dollars are claims on Canadian goods only. If we can control our imports and exports, and we must control them, we can control the exchange medium, as we did during the war, as we are now doing, and as we must always do in managing the economy. Stability will not be a problem when we put an end to the private creation of money.

National Growth

There will be no problems in putting a dual economy financial system into operation. There will be more investment in private production and private service enterprises when private investments in non productive projects are cut off. Then private earnings will all be production earnings, not mostly overhead expense. Once we put the doing of obviously necessary work first in our thinking, instead of first thinking of interest and profits, regardless of production, we will realize how slow our economic progress has been.

In developing the country, of course, we must be prudent in directing activities so as to ensure the production of an adequate volume of consumers' goods to maintain a good living standard.

One most important national growth situation will result from the national issuance and control of the money supply. No longer will billions of dollars of unearned interest flow from outlying districts into great financial centres. Each county and city, under a Dual Economy Financial System, will be responsible for the soundness of its share of the national purchasing power. No longer will counties and cities have to go hat in hand to Bay Street and James Street for money with which to finance the contruction of needed service facilities, nor will prospective home owners be at the mercy of distant loan company head offices,

and local loan sharks. The ability of any community to amortize its homes and public utility works will determine its right to an advance of national money for these purposes.

This situation will spark the industrial development of all sections of the nation, indeed, the growth of a community will, in itself, tell the story of the ingenuity, industry, and capacity of its citizens, in friendly competitive rivalry on an equal basis with all other communities, that is, on a basis whereby money for the development of any community will be available to match the thrift, industry, and good business sense of its citizens.

It cannot be over emphasized that everyone stands to benefit by the adoption of a Dual Economy Financial System as advocated herein. Work, mental and manual is the producer of all wealth—of the needs and wants of humanity. The more efficiently we work, the less overhead in financing, the more of everything there will be for everyone.

Socialists argue that profits in business take from the workers, but free enterprisers believe that rewarding initiative will result in more production, and faster technological advancement, which will more than make up for the overhead cost of competitive profits, and we believe in freedom of choice of work, freedom to live where we choose, and many other freedoms we take for granted in a free enterprise economy.

7

Certainly there is no initiative exercised in merely collecting interest on financing public enterprises and the homes of the people, which, as I previously pointed out, are no part of our private enterprise production and private service structure.

The Middle Way

The Dual Economy Financial Plan set forth herein is the Middle Way between communist dictatorship and private financial domination. All nations must be taught the truth about money. All nations must learn that there need be no scarcity of money required in the production and exchange of their own products and services. They must learn that they cannot buy foreign goods and services with their own money, which is a claim only on their own goods and services, and that the only way they can acquire foreign goods and services is to exchange their own goods and services for them, permit investments of them in their own country, borrow them, or receive and accept them as gifts. They must learn that directing the issuance of money into activities which first supply the basic needs of all citizens is most important in managing their economic affairs.

They must learn that putting private savings into production and service enterprises is a basic tenet of a private enterprise economy, and that national progress is possible only with the production of more than is consumed; that workers cannot expect to consume all they produce in an expanding economy. Each generation receives much, but must contribute more to make any progress.

They must learn that the only limit to their economic and social progress is their physical abilities to supply their needs and wants from natural resources at their command, the capacity to learn, and the values they place on human rights and dignity.

"Inventors often patch up old ideas, until some man of original mind happens along. In a flash he sees a new and simple principle that can be applied. All wonder that it was never thought of before. It looks as if this erstwhile brick and tile manufacturer, turned monetary reformer, has hit upon a simple, effective means to make Canada a depression-proof nation of homes and industry, by the issuance of national money, at its administrative cost, to equate the value of the homes and public works of the nation. The Hallatt Plan has merits of understandability and practicability. It may sweep Canada like wildfire. If so, nothing can stop it becoming law."

From an editorial in Edmonton Bulletin by J. S. Cowper.

3

ECONOMIC AND SOCIAL PROBLEMS

Housing and services for them

When we put first things first in our planning, we will first provide shelter for all citizens. Shelter is no longer just four walls and a roof. We must provide modern or modernized homes complete with modern conveniences and services.

As stated previously herein, the cost of financing homes and public utility works, under a Dual Economy Financial System, will be but a small fraction of one percent per annum. Modern and modernized three and four bedroom homes will cost respectively a dollar and a dime and a dollar and a quarter a day, and the cost of public services will be greatly reduced because of the lower cost of financing them.

This cost is worked out on a basis of paying for a home over a period of forty years, the normal work span of the average citizen, but the home will last at least the full life span, so there will be no payment to make after retirement. Only a few owners, of course, will live in the same home for life, but it is obvious that a home can usually be exchanged for one of equal value.

Surely anyone can visualize the tremendous lift it will give to the economy when every family can afford a comfortable home, and can enjoy all available public utility services for them at greatly reduced financing costs. As we improve our methods of production, families can have better and more roomy homes.

No costly insurance needed

There need be no costly insurance against loss by destruction of the bases of our money supply, nor will it be necessary to build up huge funds to pay for such losses. Each branch of government can budget for amounts to cover minor property losses, and the senior government can budget for an additional amount to cover major capital losses.

Actually it will matter little whether such amounts are collected annually in taxes in anticipation of such major losses, or whether new money is issued and recalled in the following tax period. Normally the reconstruction costs will be spread over the tax period following the losses, and the tax money will be coming in as fast as it is required.

But whether or not there might be some lag in this respect, and some new money might be temporarily required, the stability of the economy will not be adversely affected, since it is the amount of money put into circulation over a given period, in relation to total production and consumption, that is the important factor in maintaining economic stability, whether it is new money, or funds previously taxed out of circulation. Home owners will, of course, advisedly insure with provate or mutual benefit agencies against loss of their equities by fire or other damage.

9

Employment, automation.

The continual talk about automation putting people out of work is sustained by a hope by too many people that they will soon be able to live without working; by people too lacking in initiative and drive to learn how, and to do other jobs. Such people have been complaining about machinery putting men out of work since the first wheel was made. Are they never going to learn that more and better machinery has always been the catalyst for the creation of more jobs?

It should be obvious to anyone who is capable of analytical thought, that the necessity for maintaining our possessions is the criterion of the limit of the things we can have—the limit of work that will satisfy our needs and wants.

If we were actually to give each young married couple just the things they feel they would need for a comfortable, satisfying life, they wouldn't be able to maintain them—keep them up—if they worked continuously, much less be able to renew them for their children when they begin their married lives. Write down all the things you think you would like, dear reader, starting with a home, a couple of cars, a summer cottage, a helicopter, a yacht, riding horses and another few thousand things.

What honest, willing, and resourceful workers should do is to shout down the idle talk of never-sweats who are making a living writing and talking about compensation for losses because of automation. Tell them to start thinking how to develop ever more automatic machinery, including computers, so we can have more of the things we need and want. Tell them to pipe down until the average worker can at least have a modern or modernized home, a new car once in a while, and maybe a set of golf clubs.

Our politicians get themselves elected to high salaried jobs, very often promising compensation to people who are put out of work by computers and other automatic machines, and in the same breath they expound on the necessity for jobs for everyone.

Surely it is time the people demanded less inconsistency from politicians, and did some independent thinking on the subject of unemployment, starting with the premise that there can be no valid excuse for unemployment when there is so much work to be done.

10

The things we need and want only cost work, not money. Money is only a certificate for—a claim on production. It is the high cost of money that has kept the world in turmoil, and will continue to do so until the people take time to think and do something about the totally absurd interest racket.

Industrial peace

But there is more to employment than just a job. There must be industrial peace and wage stability. We must understand that ever higher wages, in terms of dollars, does not necessarily mean more purchasing power. Actually, our wages are what we produce. The axiom "more money for less work" has no basis in logic, except to the extent that work is made less onerous by mechanical devices, ever better tools, and other improved methods of operation.

We are producing more per man hour, therefore we are earning more per man hour, but the philosophy that an increase in money wages is automatically warranted because of improved methods in one or a few industries is illogical. The body of workers in any one industry contribute little if anything to its technological advancement. Individuals devise and develop improved methods.

Having regard to our pourpose of acquiring an ever higher standard of living, to which the retired generation has contributed, and in which it is entitled to share, prices should be reduced as a result of increased production from improved methods, so that all citizens can share equitably in the better living such increased production provides.

The workers in one industry cannot in equity enforce demands for an increased share of the national income without the consent of a least a democratic majority of all other groups. An increase in wages in one or a few industries alwarys triggers off demands in all other industries for higher wages regardless of the fact that in most of them there has been little if any increase in production from improved methods. Such a general increase in wages is positively inflationary. Since the turn of the century, wages have gone up fifteen to twenty times as much as they then were, and certainly take home pay, in terms of purchasing power, has not gone up nearly that much, indeed, has gone up comparatively little.

Our standard of living has gone up because of increased production, not because of higher wages. The same result would have been accomplished with stable wages and lower prices. In fact, we must have lower prices in order that the retired generations can enjoy the ever higher standard of living.

11

We are including only bare necessities in our cost of living index, whereas we should include the ever widening variety of the good things our increased production provides—even travel and recreational facilities. The cost of living index should be a standard of living index, not a cost of bare existence index. Statistics on inflation as presently compiled are an insult to the intelligence of every thinking person.

Both labor and management are responsible for ever increasing prices. Industrialists, generally, strive to get their products into an ever higher price category. Any tears they shed over higher wages are of the crocodile variety. The losers are of the retired generation, especially those who save for their retirement.

What both labor and management fail to perceive is that we all lose because of inflation, that we all must retire, and that excessive profits must and will be levelled off and distributed through graduated taxes—an accepted principle of taxation.

100 per cent vocational and other groups

The solution to wage and price instability is the formation of 100 per cent vocational and other citizen groups whose representatives will all have a say in whether demands for higher wages warrant strike action, having regard to the effect the granting of such demands will have on the whole economy.

Labor-management disputes are everybody's business. We all lose because of loss of production anywhere. Obviously raising all wages and salaries does not help anybody, but does depreciate the value of savings. Strikes are not the solution. Consultation by all interested groups is the solution, and everyone is interested. It is that simple.

Problems of health, welfare, pensions

The solutions to the problems of health, welfare, and pensions are also quite simple. Each and every citizen is entitled to an opportunity to earn a living for himself and his dependents, to health services, and to old age security. We cannot afford to have able, idle people, nor sick people who can be made well and productive. We dare not and will not neglect the retired generation to whom we owe our immediate heritage. These matters are a national responsibility. The cost is incrurred daily, and it should be collected as required by the Department of National Revenue in the least expensive way possible.

Divided federal, provincial, and municipal authority in administering the laws and regulations which affect the cultural lives of all citizens can only add to expense, inefficiency and confusion. The senior government must be the final authority, and the provincial and municipal governments must be but regional and local administrations.

12

No huge social benefit funds needed

There is no necessity to build up huge funds from which to pay pensions, unemployment, family, medicare, welfare and other social benefits. Doing so is thoughtlessly accepting the utterly false and ridiculous concept that the public sector must borrow from the private sector at interest for these purposes instead of assessing the private sector on a current expense basis. In fact, building up funds for pensions, unemployment and other benefits is inconsitent with what we are now doing. We are now making pension and other social benefit payments from the Consolidated Revenue Fund, and there is no logical reason why we should collect more than is needed as we go along. Taxing the people to build funds prior to their use is inflationary, as the workers will demand higher wages to enable them to maintain their attained standard of living.

Building huge benefit funds will mean, under the present system, more money created by our private banks on which we must pay high interest, as it is obviously ridiculous to imagine that we escape such interest by lending accumulated funds to government. The government collects taxes from everybody to pay the interest. The private money manufacturers get the interest, because if there is any money in existence they created it, and as long as it exists they get the interest on it, less, of course, the amount they pay the depositors to hold

money out of circulation and thus stifle competition in the money lending business—the private banks having a monopoly of creating all the money they lend.

Building up ever larger social benefit funds and maintaining them will not reduce the amounts that have to be contributed each year, ad infinitum. Paying out ever increasing pensions over longer periods of time will require ever increasing contributions. It is just tidy housekeeping that the amount needed for social benefits each year should be collected each year.

However, should it transpire that because of a national disaster, and/or other unanticipated losses, sums in excess of amounts budgeted for social benefits are needed, new money can be issued with not more inflationary pressure on the economy than there would be in using money that had been previously contributed from earnings or taxed out of circulation.

To repeat, it is the amount of money put into and taken out of circulation in a given period, in relation to production and consumption, that is important in maintaining wage and price stability.

Such new money, in excess of amounts that can properly be capitalized in reconstruction operations, and in a re-issuance of money against equities in public properties, must of course, be taxed out of circulation as expeditiously as is practical and generally advantageous in maintaining economic stability.

13

An economic law

It must be understood, and recognized as an economic law in private enterprise economies, that there shall be no opportunities for private profit in financing the construction and maintenance of the bases of the economy's money supply, nor in financing the economy's governmental social benefit programs.

Fictitious interest profits

The average investor mistakenly believes he is making money by investing in government bonds and debentures, in mortgages on homes, and in investment insurance policies, and the average saving depositor mistakenly thinks his saving deposits are earning money for him. The fact is that they are paying their own interest besides keeping up a costly unnecessary part of our present financial operations. They are getting back only a part of the money they are paying unnecessarily in interest and taxes on money loaned by money lending institutions at high interest rates for financing their homes and public service projects.

Insurance policy holders who invest more in insurance than the cost of sickness, accident and death risks, are building their own policy cash surrender values by paying high, unnecessary interest on loans of their own money on mortgages on their own homes, and on debentures on the public utility projects which serve them.

Insurance to cover loss by sickness, accident and death is good business, but insurance policy investment for profit in anything but private production and private service enterprises is, as has been said of the gold exhange standard, " a delusion and a snare."

The power of interest

The tens of billions of dollars that are piling up in our banks denote not only perpetual inflation, but are evidence of the fact that we are not paying for our possessions individually or collectively; that a comparatively small section of our population, by means of unearned interest, has actually acquired control of most of the real wealth of the country.

They are the new Feudal Lords who control capital, labor, and government. They collect the "rents", in unearned interest on the homes of the people, and on the unpaid-for public enterprise capital projects from schools to parliament buildings. They do not now need to hold Crown Deeds to vast areas of the country,—Dukedoms, and the like; they just hold bulging portfolios of unearned interest bearing bonds, debentures and mortgages on most of all properties.

Few people seem to realize that money in deposits in banks is a debt which the country owes to the depositors, and that comparatively little of it is owing to millions of citizens. These millions have little money on deposit, yet they are the workers who must, by production and services, make and keep all deposits good purchasing power, and must, in addition, pay in taxes other tens of billions of dollars on bonds and debentures and mortgages, and unearned interest thereon.

14

Bank deposits are increasing rapidly, which means that the debt owed by the workers is increasing rapidly. Seventy-five to eighty per cent of bank deposits are lying idle in saving deposits, yet the banks are paying interest on the idle money to lessen public participation in the money lending business, and thus to get a higher rate of interest for creating all the money needed to finance the economy.

Deposits and bonds and debentures and mortgages are piling up like mountains. Governments are issuing bonds to pay interest—refunding, they call it —which means compounding interest. Loan and Insurance Companies show that their bond and mortgage investment portfolios are increasing rapidly, which means that the debts of the real producers are increasing; that the debts are being compounded by unearned compound interest.

We are not paying for all the new government works, nor all the interest, because we cannot pay the high interest. Only a comparatively few people ever get their homes paid for. It is the business of the money lenders to keep people paying interest.

The money lending faction dare not pay out all of their swollen profits in wages and dividends because the employees and stockholders would spend the easy-come unearned profits on consumer goods, and prices would go sky high —such wages and dividends not being in payment of production of consumers' goods. Indeed, Loan and Insurance Companies are urging investors and policy holders to allow their profits to accumulate. Do they see the hand-writing on the wall? Are they beginning to realize that a private enterprise economy can only tolerate earnings and profits in actual production? Are they merely trying to stave off collapse of the unearned interest system, not knowing what else to do, but knowing that the people will not again tolerate periodic depressions as a financial control mechanism?

So the money lending institutions build sky-scraper head offices, and they encourage governments to build fabulous city halls, post offices and other structures—anything in which they can invest their rapidly accumulating unearned interest funds, and be sure of having the interest paid in taxes. As the manager of a mortgage company once told me, "We want to invest our money in the largest amounts possible, at the highest interest rates, for the longest periods, and where there will be no bother about collections."

15

Yes, of course, paying out wages for the construction of great edifices means money being paid into circulation, much of which will be spent for consumers' goods, but without corresponding production of consumers' basic needs, particularly homes; so we have continual inflation, and not enough modern or modernized homes.

To illustrate the power of interest, and the impossibility of preventing perpetual inflation under the present unearned interest system—assuming that I have taught the politicians enough about money, over the past third of a century, to ensure that they will never again allow the private money manufacturing banks to bring on a depression every few years by calling in and destroying most of the country's pay roll money—let us look at the financing of one of the many sky-scrapers that have been going up all over the country—the Toronto City Hall.

This building cost in excess of $27,000,000.00, not including land and furnishings—enough to finance the construction of at least two thousand modern three- and four-bedroom homes, including land, or of modernizing at least six thousand such homes. Let us say that the Toronto City Hall will last 100 years. Actually it should be a good, serviceable City Hall in a hundred years. Computers will be doing a lot of the work. If we continue the present rate of inflation it will be worth many times more than it is now, in money terms.

Under the Dual Economy Money System, the Bank of Canada would have issued the money to finance the construction of the building, and the City would have undertaken to amortize the building in say 100 years. The amortization cost to the rate payers would have been $270,000.00 each year, approximating one-seventh of a mill on the annual tax bill, but this rate would be progressively reduced as the annual tax bill increased.

Under the present interest system Toronto is paying 5 1/4 to 6 per cent per annum for money. Supposing that Toronto would pay each year only the $270,000.00 required to amortize the building in 100 years, how much would the City still owe under the existing financial contracts?

Assuming an average interest rate of 5 per cent, Toronto would still owe $2,965,060,000.00—over 109 times the principal cost of the building. At 6 per cent interest, Toronto would still owe $7,712,280,000.00,—over 285 times the principal cost of the building. At 7 per cent, the rate most people are paying to finance their homes, and there is an insistent demand for higher interest rates, Toronto would still owe $19,911,420,000.00—over 737 times the principal cost of the building, and over eleven times the total assessment of Toronto in 1965.

The private creation of money at high interest has been a pitiless scourge of humanity down the centuries. We now know what to do.

16

The Gold Standard

There never was nor can be a Gold Standard, in the sense that it is a standard of measure of the values of national currencies. Such a thing is a physical impossibility. The terms Gold Standard, Commodity Money, Hard Money, and Soft Money are misnomers. They are meaningless. Money is not, and never was a substance—a commodity. Money is a price language of number words. We cannot express prices and establish a basis of exchange in a substance—a commodity. The failure to comprehend this simple truth has been the cause of economic strife, of unemployment, of poverty, of burdensome debt since the beginning of trading.

A specific commodity cannot be a standard or unit of measurement of other commodities in any way. The wood in a yard stick is not a measure; the distance—one (yard)—is the unit of measurement. The tin in a pint cup is not a measure; the quantity—one (pint)—is the unit of measurement. The gold in the ounce is not a standard or unit measurement of the values of other commodities or of national currencies; the number one, call it ounce, dollar, pound or any other identifying name, is the unit of measurement—the common denominator of the numerical values of all national currencies—one (ounce) to thirty-five (dollars) to twelve and a half (pounds) and so on, and the commodity gold is merely an acceptable commodity in balancing trade, but it is not a useful one, in fact, it is always a costly, useless one to the nations which hold it in quantities.

In exchanging gold for skins, or beads for salt, we must establish the basis of exchange in numbers which indicate the quantity and or the amount of each—so much gold for so many skins, or so much salt for so many beads. Which commodity in each of these transactions is the money? Obviously neither, yet all of these commodities have supposedly been used for money. The numbers are the exchange media.

It is true that certain commodities were acceptable in most exchange transactions in different areas at different times, and that gold has become an acceptable commodity in most exchange transactions in most parts of the world, but national leaders are beginning to realize that a creditor nation might better hold promises to pay in useful goods with a premium for deferment. Shipping gold around the world, back and forth, to and from other countries to effect temporary balance of trade is not only a waste of time and ridiculously expensive, it is a reflection on our maturity—indeed, our sanity.

17

We now know that our money units are just figures set up by our chartered banks in their ledgers to the credit of progressive borrowers; that the banks are just monetizing the assets of the borrowers—not lending bank credit as represented; that most of our business is transacted by transferring money figures in bank ledgers from one account to another; that folding money, so-called, and coins are just convenient money transfer pieces, as are cheques.

Gold lenders soon discovered that they could charge equally high interest rates for promises to pay gold on demand, and later, for an ever increasing volume of just promises to pay dollars, pounds and other currencies, purportedly all redeemable in gold, as they could charge for gold. The so-called Gold

Standard has been nothing more than a money lenders' combine—the daddy of all combines.

Originally the goldsmiths, having strongboxes in which to keep their gold, and for a fee the saved gold of other people, became lenders of gold to borrowers who wished to exchange it for useful goods and services. Gradually the gold lenders began to give the borrowers notes in which they promised to pay the holders specified amounts of gold on demand.

It transpired that the gold lenders soon realized that their notes were an effective substitute for the gold—were being used as an exchange medium; that actually they, the gold lenders, were monetizing the goods and services that were being exchanged. Most of their own and their depositors' gold remained in their strongboxes. This led to excesses by the gold lenders. They gave out more promises to pay gold than they had gold to pay.

Often this got the gold lenders into trouble. Borrowers who were known to have borrowed heavily from the gold lender would fail because of losses, perhaps of a ship at sea or as a result of a fire or other catastrophe. There would be a "run" on the gold lender by depositors and holders of the gold lender's promises to pay gold on demand. The gold lender would often fail.

There were many such failures of goldsmiths. They eventually got together and made a combine agreement, which they called The Gold Standard, whereunder each gold lender would limit his promises to pay gold on demand to two and one-half times the amount of gold in his possession. There were no doubt some goldsmiths who argued that no one should promise to pay gold that he did not possess, but it was disclosed that many others had promised to pay on demand many times the amount of gold in their possession.

The so-called gold standard—the combine agreement on a ratio of two and one-half paper money units to one gold money unit—was probably decided upon because it was an approximate average position of the goldsmiths present at the conference, and they apparently realized that if they attempted to return to the hundred per cent gold basis they would put the whole economy into a depression. But, more important, they perceived that they were developing a lucrative money creating business that must be kept under their own control.

18

The ratio of two and one-half paper money units to one gold money unit was never enforced, or our progress would have been more tortuously slow than it has been. Indeed the paper money evolved to include ever increasing amounts of book-money. The number of paper money units, including book-money, (bank deposits) bonds and debentures, and mortgages on homes—all paper purchasing power—is now scores of times more than the total number of gold money units available, and the combine—the private money manufacturing monopoly—is still in operation, even though governments and central banks have relieved the private banks—saved them the expense—of supplying bills and coins, being under the delusion that so doing gives the government adequate control over the private money manufacturing business.

By taking over the printing of bank notes, or bills, the government can exercise some control over the amount of book money the private banks can create, since the banks must have sufficient so-called cash—petty cash—for the

convenience of their customers,—pocket and till money—about five to eight percent of our total supply of money.

But that is as far as effective government control extends. The government has no power to compel the private banks to create and lend money into industry no matter how much petty cash it makes available to the private banks for circulation.

It therefore boils down to the simple fact that the private banks are still largely in control of the economic progress of the economy. They still have the last word as to the activities for which they will create and lend money, with the result that too much of our money is created and loaned into all sorts of luxury and speculative activities without due regard for the first and basic needs of all the people.

As an authority, giving evidence at the hearing conducted by the Banking and Commerce Committee at Ottawa in 1954, The President of the Canadian Bankers Association, Mr. Atkinson, stated; "Making additional credit available for loans would be a matter for the banks themselves."

That the bankers are becoming aware that the gold standard combine cannot much longer be tolerated is evident from the letter written by David Rockefeller to President Kennedy respecting "the present law regarding the 25 per cent gold reserve against Federal Reserve notes and deposits." He wrote; "I personally do not see why the nation's full gold supply should not be available for international purposes. I would not be averse to seeing the law repealed altogether." This is tantamount to advising the President to get rid of the useless stuff in exchange for something useful before the other nations wake up.

19

An International Clearing House

An understanding of the nature and purpose of money discloses a simple method of handling international trade and investment transactions, and assistance programs. It is simply a matter of having a central place in which to keep accounts of the imports and exports of all nations, and of establishing a ratio of the numerical values of the different national monetary units in relation to an international common denominator which will serve as an international monetary unit. This will constitute a means of establishing a basis of exchange of all national monetary units.

All that is needed is to set up a credit in an International Clearing House of international money units for each trading nation in accordance with its requirements of exchange funds with which to transact the exchange of its volume of imports and exports. This will simply be monetizing a part of each trading nation's wealth, to do which, the International Clearing House will be given power by all nations which employ it as part of their monetary system.

The amount of international money that will be created for each trading nation by the International Clearing House will be determined by the volume of each nation's trade. There need not, and should not be any discounting of a nation's currency in the event that it is temporarily unable to meet its international trade obligations. It will simply be a matter of the International Clearing House temporarily increasing the amount of international credit money for such nation—monetizing a little more of its wealth. Each nation will, of course,

contribute to the operating cost of the International Clearing House in proportion to the amount of international credit money created for it.

By majority or other consent of its members, the International Clearing House will also be empowered to create and lend money to nations for development purposes. Any overall profits on such transactions will be used for operating expenses.

If people in one country wish to invest in another country, or if a country wishes to make a loan or a gift to another country, it will simply be a matter of the creditor country building up its international money reserves by exporting more than it imports.

It will be obvious that the only international money needed will be the international money units set up in the records of the International Clearing House.

Balanced trade necessary

Each nation must, of course, be bound by the necessity of balancing its trade within reasonable periods, and will understand that the only favorable balance of trade is an actual balance. Investments by the people of one nation in another nation need have but little or no effect on balance of trade payments. It is goods that are invested bilaterally and multilaterally, not money. The same applies to loans and gifts. Nations do not sell goods for another nation's money. They exchange goods. The exporting nation is not paid for its exports until it receives imports from somewhere in payment.

20

Foreign investment profits

The matter of paying profits on foreign investments will always be a matter of national policy as to how much of such profits must be expended or re-invested in the investee country, and how much goods will be exported to acquire foreign exchange with which to make such profit payments.

Reciprocal equal foreign investments by and in any country will cancel out such investment profits, ordinarily, but a debtor nation on balance of foreign investments and trade may rightfully impose restrictions on exports of profits on such foreign investments as a tenet of national policy in protection of its international balance of payments situation.

It is simply a case of "let the foreign investor beware". Having become, by investing in a foreign country, part owner of that country's wealth, the investor cannot expect to be able to withdraw part of the wealth of that country at will. He did not invest money, therefore he cannot withdraw money. Money does not flow, as is commonly believed, from one country to another. Money is the price tag on the goods invested. It is the goods that flow—in all directions.

Stable currency vital

Changing the ratio value of a nation's currency in relation to the values of currencies of other nations does not help to balance payments, which must be made in goods, but does upset trading relations. Depreciating a currency is simply a form of national price cutting, and of lowering the wages of workers, but not the interest of the money lenders. It may allow a nation temporarily to

better its so-called cash position, but its overall standard of living position will be lowered. There need be no such disruption in a properly organized society of nations.

Discounting a nation's currency because its so-called cash reserves are down below the amount the money lenders deem necessary to maintain liquidity, is as ridiculous as would be discounting the cheques of a billion dollar corporation because its cash in bank position slipped below normal in adding to its inventory. To talk of a nation, that is worth thousands of billions of dollars in real wealth, becoming insolvent when its imports exceed its exports for a short time, is an affront to the intelligence of man.

21

The whole practice of juggling national currencies glaringly points up the general lack of understanding of the nature and purpose of money. The idea that money is wealth must be dispelled.

Nations must live within means

It must be realized however that the people of any nation, who are living beyond their means—consuming more than they are producing, through borrowing—must tighten their belts, roll up their sleeves, and thus meet the situation head on. They must eliminate unearned interest, and limit profits on investments to earnings in the physical production of the needs and wants of all citizens.

National control imperative

The entire philosophy of controlling the national economy by manipulating the interest and tax rates, and the exchange value of the currency has no basis in logic, and has been the direct cause of booms and busts, and of chronic economic turmoil and instability down the centuries. The practice stems from the private creation and volume control of money, and the inability of governments to prevent the machinations of the private money manufacturers.

To manage the affairs of a nation efficiently, the fiscal, trade and monetary policies must be under one control—under the control of government. There can be no other satisfactory way. Divided control in these vital fields can only perpetuate the disorders of alternate periods of monetary stringency and inflation; of always too much to mass unemployment, and the necessity for ever increasing welfare. The private creation of money, and the economic power and control that are inherent in such a monopoly, must end.

The purpose of foreign trade

It should be understood that the purpose of international trade is to provide a wider variety of goods for all peoples, particularly the goods and services needed for economic development, and desired in a continuing effort to enhance the standard of living.

We should understand that nations do not make a profit on such trade except to the extent that there are cost advantages in exchanging goods where proximity to markets and special skills in production are important factors. We should understand that any equitable foreign trade, over and above that which provides needs and wants, is only profitable to the importers and exporters, and

that such profits come out of everyone's pocket. Unnecessary foreign trade will be at the expense of national development, much of it just catering to the whims and fancies of the affluent, to the neglect of the needy. What a nation imports for all its people is the vital and most important purpose of international trade.

22

The people of any nation who allow their natural resources to be depleted, and their primary and other products to be exported in exchange for imports of goods not needed to develop their country, and to enhance the standard of living of all citizens on an equitable basis, are squandering the birthright of their children, catering to the extravagances of the few, and neglecting the needs of the many.

The natural resources of a nation belong to all the people, yet the reward of initiative must be allowed to the developers—private or public, national, regional or local—in a dual public and private enterprise economy.

A country does not exchange its products for money. The only money it has is its own money which is a claim on its own goods, and on the goods received in exchange from other countries. If it produces too many things, and engages in too many activities that are of little value or interest to many of its citizens, or exports too much of its production for imports of too much goods and services that are of little value or interest to many of its citizens, then too much of that country's money is of little value to many of its citizens—too much money circulating in the wrong channels, not enough money circulating in activities which first provide the basic needs of all citizens.

SHOULD GOLD BE SCRAPPED? Excerpts from an address to the Empire Club, Toronto, Feb. 25, 1965, by Prof. Harry J. Johnson, Chicago University, one of a group of thirty-two monetary experts now examining monetary gold.

"The history of money is essentially a history of the gradual substitution of credit money for commodity money in response to the interaction of scarcity of the latter, and ingenuity in devising the former. The economics involved ensure that a return to the gold standard (ratio) would be a practical impossibility.

"Tying the international monetary system to a produced commodity—especially a mineral—as the basic money, inevitably entails exposing the system to erratic changes in the stock of money resulting from the vagaries of technical change and new discoveries in the industry producing the monetary commodity. These erratic changes can and should be avoided by deliberate monetary management, and the cost of producing (monetary) gold can be escaped by resorting to credit money.

"Since reform cannot move in the direction of increasing the role of gold, it must move in the direction of decreasing and altering the role of gold so as to minimize the dangers that its presence imposes on the system. The logical end of that process is the eventual scrapping of gold as an international money, and replacement of it by some international monetary system based entirely on credit (money)."

(*International Clearing House IDEA was publicized in 1934.*)

23

If I Were Prime Minister

If I were Prime Minister, I would speak to the nation and say: My fellow citizens, I bring you hope of a better life; I bring you assurance of peace and contentment, of progress and prosperity, if you will have it so. We have made a breakthrough in the war on poverty. We have learned that where there are materials available, and plenty of arable land, there is no reason why all able workers should not enjoy full, gainful employment.

We have learned that our needs and wants in a bountiful land only cost work, not money, and that it is the money that costs too much work. We have learned that the private creation of money has been the root cause of most of our economic and social problems, and we have learned how we can correct the errors we have been making in administering our monetary system.

We have learned that we have developed a dual public and private enterprise economy, and that these enterprises must be financed on different bases. We have learned how simply this can be done. We have learned that the public enterprise sector of our economy does not need to borrow money at interest from the private enterprise sector to finance public works and housing, none of which is any part of our private enterprise structure. This will mean that every family can have a modern or modernized home, and adequate public services for it.

We are going to put first needs first in our planning, through a system of directional monetization. No longer will private banks be allowed to create money and direct its issuance into any activity, in which they see an interest profit, regardless of the basic needs of all citizens.

This new idea of financing will be explained to you in daily talks, transcripts of which will be mailed to you. I urge each and every one to take this opportunity, the first you have ever had, to study and learn the truth about the nature and purpose of money.

Your government will make the change from private bank created money to the new Dual Economy Money System as soon as it feels that the majority of citizens understand fully the benefits to be realized, and have given us a mandate so to do by a referendum to be held in due time, hopefully in a few weeks. Please pursue your study of this new idea of financing with the assurance of your government that it can be put into operation without adversely affecting private enterprise, and with gain for everyone.

Tune in at this time tomorrow and hear a talk on how the private money lenders' scheme for manipulating the interest rate has kept us and our forebears in economic turmoil down the centuries, and how economic stability will be maintained by amortizing the bases of our money supply under the Dual Economy Money System.

24

WHAT WAS SAID by great leaders about private financial domination, but who didn't know how to put an end to it.

By Thomas Jefferson: "I believe the banking institutions are more dangerous to our liberties than standing armies. Already they have raised up a monied

aristocracy that has set the government at defiance. The issuing power should be taken from the banks and restored to the people to whom it properly belongs."

By John Adams: "All the perplexities, confusion and distress in America arise, not from defects in their constitution or confederation; not from want of honor or virtue, so much as from downright ignorance of the nature of coin, credit and circulation."

By Abraham Lincoln: "I have two great enemies—the Southern Army in front of me, and the Financial Institutions in the rear. Of the two, the one behind is my greatest foe. The Government should create, issue and circulate all the currency required to satisfy the spending power of the Government and the buying power of consumers. The privilege of creating and issuing money is not only the supreme prerogative of Government, it is the Government's greatest creative opportunity. The people can and will be furnished with a currency as safe as their own country. Money will cease to be master and become the servant of the people. Democracy will rise superior to the money power."

By W. L. Mackenzie King: "Once a nation parts with the control of its currency and credit, it matters not who makes the nation's laws. Usury, once in control, will wreck any nation. Until the control of the issue of currency and credit is restored to Government, and recognized as its most conspicuous and sacred responsibility, all talk of The Sovereignty of Parliament and Democracy is idle and futile."

What was said by bankers

By Marriner J. Eccles, Chairman of United States Federal Reserve Board: "The banks can create and destroy money; bank credit is money. It is money we do most of our business with, not with that currency which we usually think of as money."

By international banker Meyer Amschel Rothschild: "Let me issue the money of a nation and I care not who makes its laws."

By Graham Towers, Governor of Bank of Canada: "That is the banking business (creating money), just the same way that a steel plant makes steel. Now, if Parliament wants to change the form of operating the banking system, then certainly that is within the power of Parliament."

Mr. Chairman; I have given you a digest—an outline of my analysis of our economic and social problems, and of my proposals for economic betterment.

There may be twenty million questions to be answered, but I suspect that millions of citizens are asking the same questions, and I believe they want answers.

What I have represented to you is not only important to the people of Canada; it is important to all the world. It is important to the solution of the race problem in the United States, in Africa and elsewhere. It is important to the settlement of the Vietnam war. It is important to the strained situation existing in the Middle East. It is important to the narrowing, and the final elimination of the cleavage between communism and capitalism. It is important to the peace and prosperity of the world, and Canada has an unique opportunity to demonstrate that fact.

I had a letter from a Boston Banker who I met on the train going to Bretton Woods, and to whom I gave a copy of Scientific Money. He wrote in part, "Wouldn't it be grand to try out your plan in some of the emerging nations which seem to think that a loan from the U.S.A. is the only way to get going."

Yes, Loans, Loans, Loans: a job for money before there shall be jobs for men. Is money a means of production? No, it is a witness, evidence, a record of production. As electricity is generated simultaneously with the use of power, so money can be created and issued as a certificate, as a claim on goods as they are produced. So doing is the first responsibility of National Governments.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 36

TUESDAY, JANUARY 17, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Representing the Canadian Federation of Agriculture: David Kirk, Executive Secretary. *Representing CUNA International Inc.:* Messrs. Robert J. Ingram; A. R. Glen; W. Moxon; A. W. Wagar; and L. R. Tendler.

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STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

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Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

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Clermont,
Coates,
Comtois,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Lamontagne,
Latulippe,
Leboe,
Lind,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, January 17, 1967.
(73)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Gray, Lambert, Leboe, Lind, More (*Regina City*), Wahn—(9).

Also present: Mr. Whelan.

In attendance: Messrs. David Kirk, Executive Secretary, Canadian Federation of Agriculture; C. F. Elderkin, Special, Adviser, Department of Finance; and Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation.

The Chairman introduced the witness, Mr. Kirk, who read his brief and was questioned. In accordance with the resolution passed at the meeting of October 13, 1966, the Canadian Federation of Agriculture brief is attached as *Appendix II*.

The questioning having been concluded, the Chairman thanked the witness, who then withdrew.

At 12.55 p.m. the Committee adjourned until 3.45 p.m. this day.

AFTERNOON SITTING
(74)

The Committee resumed at 3.55 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Gray, Lambert, Leboe, Lind, More (*Regina City*)—(9).

Also present: Mr. Haidasz.

In attendance: Messrs. Robert J. Ingram, Executive Director, CUNA International Inc.; A. R. Glen, President CUNA International Inc.; W. Moxon, President, National Association, Canadian Credit Unions; A. W. Wagar, President, Canadian Co-operative Credit Society; L. R. Tendler, Vice-President, Canadian Credit Union Society; C. F. Elderkin, Special Adviser, Department of Finance; Mr. Denis Baribeau and Miss M. R. Prentis, research assistants.

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The Chairman introduced the witnesses, and, at his request, Mr. Ingram explained the purpose and organization of CUNA International Inc. and read the brief. In accordance with the resolution passed at the Meeting of October 13, 1966, the brief is attached as *Appendix JJ*.

The witnesses were questioned concerning the recommendations put forward in their brief.

In the course of the questioning Mr. Wagar read from a letter he had written to the Superintendent of Insurance concerning discussions held regarding amendments to the Co-operative Credit Society Act.

Ordered,—That copies of Mr. Wagar's letter be distributed to members of the Committee.

Mr. Ingram tabled three copies of a publication entiteld *International Credit Union Yearbook 1966* and agreed to provide additional copies for distribution to the members.

The questioning having been concluded, the Chairman thanked the witnesses, who then withdrew.

At 6.25 p.m. the Committee adjourned until Thursday, January 19, 1967, at 11.00 a.m.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

TUESDAY, January 17, 1966.

The CHAIRMAN: Gentlemen, I think we are in a position to start our meeting.

Our witness this morning is Mr. David Kirk, the Executive Secretary of the Canadian Federation of Agriculture.

Before we start, and I had not mentioned this to the Clerk, but it just occurred to me that I had neglected to ask her to send out some notices for a Steering Committee meeting this week. As some members of the Steering Committee are here perhaps we should decide right now when to have this meeting and then our Clerk can telephone the balance of the members. What time do you suggest?

An hon. MEMBER: Ten o'clock Thursday?

The CHAIRMAN: I have a meeting myself on Thursday morning. Could we meet for supper, perhaps, or do you want to have a meeting right after we adjourn at 6 o'clock?

Mr. WAHN: I think that is satisfactory to me, Mr. Chairman, as I am tied up for lunch.

The CHAIRMAN: Let us think about it during this morning's hearing and when we adjourn at one o'clock we will figure out something for a mutually convenient time.

As I said, Mr. Kirk is the Executive Secretary of the Canadian Federation of Agriculture. Even though we do not ordinarily permit the witness to read his brief in its entirety, Mr. Kirk's brief is very short and I think it is just as simple to ask him to read it. It is only a few pages. I think this would be just as easy as asking him to attempt to summarize an already limited presentation.

Mr. Kirk, if you please.

Mr. DAVID KIRK (*Executive Secretary, Canadian Federation of Agriculture*): Thank you, Mr. Chairman. I should say that normally my president and perhaps other members of our board and executive would be here with me, but our annual meeting is next week and this is the time of year when there is an incredible accumulation of farm organization meetings across the country and that is the reason for my being the only one here today.

The CHAIRMAN: We just took that as a mark of your own distinction!

Mr. KIRK: I wanted to explain that it is not that, you see. (Mr. Kirk then read the brief—see appendix II.)

The CHAIRMAN: Thank you, Mr. Kirk. Gentlemen, I think you will agree that Mr. Kirk's brief falls into three sections. First, the views on clause 88(5); second, the views on levels of interest rates and, finally, the views on interest

charge disclosure. I therefore suggest to the Committee that we proceed to consider Mr. Kirk's brief in that order and I would ask the members to indicate to me if they wish to ask questions firstly, with respect to clause 88(5). I recognize first Mr. Clermont, followed by Mr. Lambert and Mr. Leboe.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, in its brief, the Federation suggests that this ceiling should be raised from $5,000 to $10,000. Is the Agricultural Prices Stabilization Board under the jurisdiction of the provinces? For instance, in the Province of Ontario, a producer can ask for payment for his merchandise after fifteen days.

(*English*)

Mr. KIRK: Under the Agricultural Products Board, sir?

Mr. CLERMONT: I think it is the marketing board. I met most of the marketing board under the provincial jurisdiction and it is my understanding that in Ontario a producer may request payment for his products after two weeks.

Mr. KIRK: I am not saying that this is not so, but I had not been aware of a legal provision through the marketing boards requiring payment. Perhaps that does exist but I was not aware of it.

Mr. CLERMONT: Because in your brief you make two requests; that three months is too short and you suggest a six months' period and that the amount of $5,000 is not high enough, it should go as high as $10,000. I do not know if I am right or wrong, but it is my understanding, that most of the marketing boards are under provincial jurisdiction, and in the case of Ontario the producer can ask for payment after two weeks for the goods sold. If such is the case, why the six months?

Mr. KIRK: I must plead ignorance on this, although I should point out that on this question of the marketing board regulations I frankly do not know. Mind you, not all products are under marketing boards. I must also say I would be surprised if there is in the negotiating type of board that is very widespread in Ontario any proper legal protection involved. Many of these boards simply negotiate a price and sometimes arbitrate it. I was not aware of any provision for repayment in the board regulations. I am not saying there is not, there may be.

Mr. CLERMONT: What is the reason you would like the cattle protected under clause 88, subclause (5)?

Mr. KIRK: Cattle?

Mr. CLERMONT: I understand that now only perishable goods are covered under clause 88, subclause (5).

Mr. KIRK: Only perishable crops, yes.

The point is that you can have bankruptcies of processors of animal products, and there have been bankruptcies in poultry and in livestock. Our point is simply that the principle should be extended to those cases.

Mr. CLERMONT: I understand that the federation would be satisfied if subclause (5) of clause 88 read the same as (a) and (b) of subclause (1) of clause 88, which covers more ground?

Mr. KIRK: Yes, that is right. It says "direct products of the soil", or something like that.

The CHAIRMAN: You want to make this parallel to that wording?

Mr. KIRK: Yes, I think that would be a satisfactory way of doing it.

Mr. CLERMONT: When the banking association was before this Committee they were asked, if my recollection is correct, if they might hesitate to grant loans, even if the limit was $5,000, in some cases, especially in the small loans category, but if the ceiling is increased from $5,000 to $10,000 it might be difficult for some individuals to obtain loans from the banks?

The CHAIRMAN: The individual manufacturer or processor?

Mr. CLERMONT: Yes.

Mr. KIRK: Well, I think the attitude of our people on this has been that if the prospective credit position of the firm is so bad that the bank needs this comprehensive access to the security before there is any provision for any farmers, that it is not a very good case for lending in the first place. I think their view is that they should have this protection and they are not particularly interested in the bank being enabled to make loans to what may be evidently poor risks.

Mr. CLERMONT: If banks are advancing or loaning money under clause 88 it may also mean that they are not satisfied with other guarantees offered by the prospective borrowers.

Mr. KIRK: Yes, it may be.

Mr. CLERMONT: I have no more questions.

Mr. LAMBERT: Mr. Chairman, arising out of the last answer we were given, I find it extraordinary that the witness should feel that any security given under clause 88 is only to customers who are poor risks. I may have gotten the wrong impression from the witness', answer, but I think he will recognize that there are different categories of borrowers. Does the witness have any appreciation how much lending is done under clause 88?

Mr. KIRK: Well, my impression is that it is very extensive.

Mr. LAMBERT: All right. As a result of the proposed amendment to clause 88 (5), and the further amendments that you propose, do you not think with all the inhibitions that are being placed against clause 88, that it will pretty well dry it up? There is such a thing as killing the goose.

Mr. KIRK: We do not see why this is so. Our view is that a primary purpose of the credit under clause 88 surely is to enable the company to pay its suppliers.

Mr. LAMBERT: Do you not think that clause 88 is more designed to provide them with working capital, and that you take security only on the commodities that they are processing and you finance them through the period of processing?

Mr. KIRK: But presumably the need for working capital, under normal circumstances, is to pay the farmer for the product that he delivers. What do you decide to use the working capital for if you do not use it for this?

Mr. LAMBERT: There are wages and we also hope that the initial producer is going to get paid as well, but if the processor is not able to obtain his financing in

this particular field under clause 88, where on earth is he going to find his financing and what good is it for a producer to have cattle or poultry or other farm commodities to sell if he cannot sell them. He might as well go and do something else. I am concerned about this matter of trying to place so many inhibitions against this type of financing. I agree there have been some difficulties with regard to some processors going broke, but there is also the question of going after an increase in the bonding requirements in the case of drovers. We had one bad example in Alberta, and that was a case where a concern had half a million dollars invested in cattle with only a $10,000 bond. Of course, this was nonsense. Those things are being taken care of now.

The CHAIRMAN: Have the cattle raisers been reimbursed in the Alberta case?

Mr. LAMBERT: There has been a partial reimbursement by the provincial government on an ex gratia basis, but ex gratia payments are not a course of conduct that can be recommended. However, I am very concerned about this attitude towards clause 88. I think that clause 88 is going to be dried up in the future. As a matter of fact, I am a little concerned about the present plans in regard to it, and I am not too sure that the federal government has really thought this one out as to its own priorities for things like unemployment insurance deductions, deductions for Canada Pension Plan and deductions for income tax where it has priority claims. I do not think that the consent of the federal government has been obtained in this regard.

Mr. KIRK: Well, I think you would agree, sir, it is inherent in our memorandum, in respect to our recommendations, that it should also go into the Bankruptcy Act. Our position is that the peculiarly vulnerable position of the producer as an individual marketing a product that represents his livelihood for the year should be, as a matter of policy, protected.

Mr. LAMBERT: He is like any other creditor; he is a supplier, of supplies. Surely that man is entitled to the same type of consideration.

The CHAIRMAN: Is there any other category of supplier who supplies, as the farmer does, the entire fruit of his year's labour to one person?

Mr. KIRK: Well, the employee of the plant who is also given this priority is in the same position; his livelihood is dependent upon what that plant pays him, and so is the farmer. This, I think, is not the general position with respect to creditors at such plants, is it?

Mr. LAMBERT: The farmer does not sell all his cattle at one time to the one packer. I will agree that the man who is raising field tomatoes or field beans, for instance in this particular area I think they are vulnerable, but I am not too sure that this is the answer. I realize that you have a case there. You cannot hold a perishable product like tomatoes, you cannot hold beans, you cannot hold these other certain types of field crops, but with regard to cattle, hogs, and so forth, they do not all come on the market at the same time.

The CHAIRMAN: Are there any further comments or questions?

Mr. LAMBERT: This is the point. I would like to know if the witness and the people who put this brief together have thought about this point; that by extending the exemptions per producer and by extending the number of prod-

ucts, that clause 88 will just become so many words in the act in so far as the agricultural industry is concerned. There may not be any financing for them at all.

Mr. KIRK: Of course, our people have been aware that this case was made and this problem has been raised. If I understand correctly, their attitude is that they feel they are in a particularly vulnerable position, not only with respect to clause 88 but that generally in the case of bankruptcy this protection should be given, and their position is that they think the economy of processing and marketing food products is not, in fact, going to collapse under these conditions through lack of credit. That is their view. They think that credit will be forthcoming for sound firms.

Mr. LAMBERT: For sound firms, but then there are categories of credit ratings, not only among processors but among producers, which are not.

The CHAIRMAN: The banks told us that they do not use a credit rating system. I find this incredible but if my memory does not fail me they suggested that.

Mr. LAMBERT: That they do not want to use what, Mr. Chairman? Credit ratings?

The CHAIRMAN: Yes.

Mr. LAMBERT: Well, certainly they do; any time they make a distinction in an interest rate as between 5½ per cent and 6 per cent they are giving you a credit rating.

The CHAIRMAN: I think I asked them one time whether they rate credit in the same manner that retail firms rate people who come and want to buy on credit from them. They do not use that system. I found it rather incredible that they made that suggestion. Perhaps I misunderstood them.

Mr. KIRK: Again going back to the discussions that we have had in our organization about this, I think there has been a recognition that these things we are asking for may well have the kind of impact you are talking about on some firms, and I think their view is that they are willing to see that change in the structure of the situation develop.

Mr. LAMBERT: Then the consequential result of that would be that the processing industry would fall into the hands of the big chaps, the fellows who received their financing and who are sound, and any man who is trying to make a go of it during the early years has got to get some of this more marginal financing or he might as well stay out of the business. I do not think the farmers would be particularly anxious to say, well, we will concentrate our food processing in the hands of just the big ones who already have their financing established and who are no credit risk.

Mr. KIRK: You recognize that there may be some firms, under these circumstances, which would have difficulty getting credit. I think that our people, quite frankly, are skeptical that these provisions we are asking for would in fact result in such a lack of credit that the whole business will be forced, as you put it, into the hands of a few very large firms. I do not think they think that this will happen; but there are those who are skeptical of the proposition. I do not pretend, however to have analysis of, or information about, the practices of

banks and the whole credit system. I understand that the points you are making have been made before. I am assuming that there are people who are not impressed with this argument.

Mr. LAMBERT: I suggest to you that you are going to drive the banks, in the more marginal cases, into taking other forms of security in which you would not have a ghost of a chance. Take chattel mortgages. What priorities would you have under a chattel mortgage?

Mr. KIRK: We note this possibility in our brief. There is also protection to Labour in the Bankruptcy Act, more broadly applicable, and we think that it should be there for farmers, similarly.

Mr. LAMBERT: You may be making your representations with regard to the Bankruptcy Act, but within the Bank Act. This is what concerns me. To knock over a mosquito you are using a sledge-hammer.

Mr. KIRK: But you catch a great many other things, too.

Mr. LEBOE: Mr. Chairman, I would like to ask the witness to what extent the Canadian Federation of Agriculture has consulted with the financial institutions, and particularly the banks from which they draw their credit resources, in connection with the representations they are making here today?

Mr. KIRK: We are aware, of course, of the representations and opinions that have been expressed by the banks about this matter, but we have not entered into direct consultation with the banks on this section.

Mr. LEBOE: Do you not think that the point that was made by Mr. Lambert about the redirection of security is going to be of paramount importance in the representations you are making here. Surely those providing credit are going to be very loth to play second fiddle in any case whether it is for perishable goods or any other type. If they can redirect their security in such a way as to eliminate this, banks, because they are responsible institutions and are responsible to shareholders, in order to do a good job will certainly do everything they can to protect every dollar of credit that they provide. Would you not agree?

Mr. KIRK: Yes; I think it is their business to do so. I agree.

Mr. LEBOE: They will search out ways and means which will actually, it would seem to me, defeat the very purpose of your representations. It seems to me that in setting up the security for a processor, for instance, they are going to have to set aside $5,000 right off the bat—I think the bankers call it "below the line"—wherever this provision applies.

The CHAIRMAN: Not if the farmer has already been paid.

Mr. LEBOE: We are talking about protection where the farmer has not been paid.

The CHAIRMAN: That is the point.

Mr. KIRK: You are talking about the processor?

Mr. LEBOE: I am talking about the processor. The processor is going to ask for credit, and if he is dealing in a number of accounts he has the provision there that the farmer will have priority. In other words, for every account that he feels might reach the $5,000 level, the bank will have to set aside, in looking at the

credit rating of the processor, $5,000 because it does not know whether or not it will get it back if the processor gets into trouble.

Mr. LAMBERT: Mr. Chairman, it is more than that. It is $5,000 per producer.

Mr. LEBOE: That is what I mean; $5,000 per producer.

Mr. KIRK: I think it is true to say that in some cases what this has caused concern among farmers is the feeling among some producers concerned that the banks have not looked closely enough at the credit position of the firm and that the protection they have under this section leads them into a situation where excessive credit is granted at the expense of the farmer. This is a view that has been expressed by some farmers.

Mr. LEBOE: In other words, you are saying that the farmers felt that the banks should be the sifting element and that they should say whether or not these people should be put out of business sooner or later. I do not think this is really the bankers' responsibility, is it? Surely it cannot be the bankers' responsibility to say whether or not this or that person should be put out of business. They are looking at it from their point of view in getting their money. Now they will set aside $5,000 for every producer who supplies to the processor in the credit rating.

I think that covers the points I wanted to make, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands):* I wonder if you can give the Committee any statistical information—if your organization has compiled any—regarding the number of processors who have had financial failures entailing the banks' availing themselves of the provisions of section 88? How frequent has this action been taken?

Mr. KIRK: I have some records of individual bankruptcies, sir, but I do not have over-all statistical evidence of the number of times this has occurred. We have cases and lists of losses and that kind of thing, but we do not have a comprehensive, statistical compilation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands):* Do you have an idea of how large a factor they are in the general picture of bank financing of food processors?

Mr. KIRK: No, but I would not expect it to be a very large percentage when cast against the whole of the agricultural marketing—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I, too, think that is true. Have you any estimates which would enable us to see how serious is the suggestion that Mr. Lambert has made, that these provisions will tend to dry up the credit. What has the banks' experience been?

Mr. KIRK: Our people feel that it should not happen at all, and therefore it is not a question of assessing the percentage, so to speak. I realize that the percentage may be relevant if you look at it from Mr. Lambert's point of view. Then it becomes relevant. From the viewpoint that my people have been taking it is not relevant.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think you understand why I considered that it might be relevant, in the light of the argument Mr. Lambert has made.

Mr. LAMBERT: But is it not quite an irrelevant argument, though, because if the banks do the financing under section 88 and everything goes right, this is not a case history. The only incidence of difficulty is when there has been a failure and section 88 security has been involved, and the farmers have not received full returns as a result of this security. That is the only relevant information.

The CHAIRMAN: I think Mr. Cameron's point is that if the banks have found that 99 per cent of the cases are successful and they do not have recourse to the extreme security provisions of section 88, then it should not make any difference what has been added.

Mr. Cameron (*Nanaimo-Cowichan-The Islands*): My point was that if the incidence of having to invoke section 88 is very low then the banks have no cause to be reluctant to finance processors.

The CHAIRMAN: That is what they call credit rating.

Mr. LAMBERT: I do not agree with your argument at all. They finance them. They have financed them, period, under section 88.

Mr. WAHN: I am not sure that I understand your argument. As I understand section 88, it gives the bank an effective floating charge over the inventory of the processor. Is it your point that it might be quite just for the bank to have such a floating charge over what is essentially the property of the processor, namely, inventory that he has bought and paid for, but that perhaps it is not entirely just that the banks should get security over part of the inventory that really does not belong to the processor but has been delivered to the processor by a farmer-producer?

Mr. KIRK: Yes. Our people feel that he should be getting credit in order to pay the farmer.

Mr. WAHN: I just want to be clear that I understand your point. Let us take a very simple case. For example, a processor may not have any inventory on hand on a particular day, and, he receives $5,000 worth of produce from a farmer. The section 8 security provisions immediately attach to the produce even though the farmer has not been paid for it. Is it your position that the bank should not rely upon the farmers to provide the underlying security for a bank loan?

Mr. KIRK: That is right.

Mr. WHELAN: If I may interject, these are assets that do not belong to the processor. They still belong to the farmer-producer but he cannot identify them because they are in a can.

Mr. WAHN: For example, if it were feasible for all the farmer-producers to sell their products to the processor under some sort of title-retention or conditional sale agreement whereby they retained the property until it was paid for, the bank would not get prior security over the asset. This would obviously be a very involved and difficult scheme to work out when you are dealing with farm produce.

As I understand your argument, you feel that although it is perfectly legitimate for the bank to have security over a processor's inventory, which, in effect, belongs to the processor and for which he has paid, you feel that it is unjust that he should have security over—

Mr. KIRK: For example, if a firm has no inventory on hand, but has been able to complete its business operations up to that point, such as processing the product and disposing of it, then its financial position is such that, having done all that without any inventory, it is close to a bankrupt position. The farmers feel that a plant is following a very questionable procedure if it continues to acquire produce without paying for it and then, perhaps, two or three weeks later it goes bankrupt and the produce is then made available to the bank to make up for the losses suffered by the firm. The farmers do not think this is sound.

Mr. WAHN: In your view, Mr. Kirk, and in the view of the associations you represent, it would be unsound procedure, for a bank to rely, in making a loan, upon inventory supplied by farmers and for which the processor has not paid. You feel that, before extending credit, the bank should satisfy itself that the processor has sufficient assets of its own to carry on business in an economical fashion?

Mr. KIRK: That is right. Rightly or wrongly, our people feel that section 88, without this priority provision for farmers, has in some cases been a means by which banks have accumulated assets under conditions where the assets were needed because a firm was in trouble.

Mr. WAHN: Are you suggesting that banks on occasion have gone so far as to keep a processor in business until they have accumulated—

Mr. KIRK: I am not making a charge. I am saying that a number of our people have felt that way. I am merely reporting a view.

Mr. WAHN: And you feel it is important that that view be dissipated?

Mr. KIRK: I feel that it is important that that view be dissipated, yes.

Mr. WAHN: Do you feel, then, Mr. Kirk, that there are cases where farmers can deliver to only one processor, or, at least, to a limited number of them? Does it happen very often that in a particular community where a farmer may be delivering his produce would there be only one packer, for example?

Mr. KIRK: Yes; there are many locations where there is only one packer readily available with a desirable place to which a man may want to ship. For hogs and cattle I suppose there really are alternatives, but for some other products there are no real alternatives. In fact, there is, in advance, a contractual relationship between the plant and the farmer over quite a wide range of products. This is certainly true of most canning crops, and of poultry, and it can be true—and will, perhaps, in the future become increasingly true—of hogs. This is the integration aspect, where you are getting an increasing tie-up between the processor and the producer.

Mr. WAHN: Are you saying that there are a number of cases where, in actual practice, as we do business nowadays, the farmer has no alternative but to deliver his crop to one processor or, at any rate, to a limited number of them, and therefore, that he cannot really spread his risk?

Mr. KIRK: That is right; where he has no satisfactory alternative or contractual obligation but to deliver to a particular processor.

Mr. LEBOE: I have a supplementary question, Mr. Chairman, along Mr. Wahn's line of questioning.

Does the witness not feel that it is going too far to ask the banks to be the police in the situation which you outlined, of the possibility of their acquiring assets after they feel that the processor is in trouble?

All through my life I have been confronted by people who wanted their money immediately when I got something from them. Either I paid or I did not get the goods. This is always the prerogative of the person who is selling.

I would also like him to elaborate a little more on the contractual arrangement and where this request that be is making would fit in under one?

Mr. KIRK: To produce a product on speculation—that is, without knowing whether it will be taken up—is an unsatisfactory procedure these days. In general, no one likes to produce, for example, tomatoes in any quantity for canning without having some kind of undertaking that he has a market for them, because there is a very high expense there and if there were no market he would be in trouble. These contractual arrangements are made with plants.

Mr. LEBOE: How does this request that you are making apply in such a case? It seems to me that if a person enters into a contract there is a delivery arrangement, there is a price arrangement, and there is also a payment arrangement. I would think that there would be. Therefore, there are other avenues for protection where the famer can do his own policing, because he has entered into a contract; and if he has entered into one in 1966, for delivery in 1967, he has lots of time to look over the situation and find out whether or not the operation is very sound, instead of leaving the banks to police it.

Mr. KIRK: Let us say that a producer is in the business of producing broilers. If I understand it correctly in this day and age, the broiler plant and the producer need to operate on a systematic, known basis. They do not just sit around with their plant and take whatever product may happen to arrive. You have to schedule the deliveries over a period, and all this has to be arranged ahead of time. The producer has to plan and start his production ahead of time, and that is where his market is. He is in a very poor position to be able to say to this plant: "I have to have my money today." If the plant says: "I have not got it today," be cannot then say: "I will not deliver to you," because he can deliver no other place. That is the arrangement. He cannot just take these broilers, which must be marketed within a very short and precise time period, to somebody else. That somebody else will say: "We have our killing lines all scheduled and the product coming in. We cannot handle your product." Am I talking to your point?

Mr. LEBOE: Yes, to a degree; but it does seem to me that we are missing out on the point that the individual farmer, with a contractual arrangement under these circumstances, could well have already obtained from the producer—this is the other side of the coin—considerable credit from the processor. The producer, in connection with his contractual arrangements, may already have done this.

Mr. KIRK: He may have, indeed.

Mr. LEBOE: It seems to me that this would evolve as a general practice out of the situation that you have described. I am asking whether this happens.

Mr. KIRK: Yes; credit is extended like this very often, of course.

The CHAIRMAN: It depends on the crop.

Mr. KIRK: It depends on the crop, and it depends on the man and what the contract is. There are many kinds of contracts. This could happen, of course.

Mr. LEBOE: We have the coin reversed. Now the banker is in the dark about what actually happens; so that we have it both ways.

The CHAIRMAN: I now recognize Mr. Whelan, whom we have the honour of having with us this morning. He is the very distinguished Chairman of the Agriculture Committee, and has taken a particular interest in this amendment for some years.

Mr. WHELAN: First of all, Mr. Chairman, I probably should be appearing before the Committee as a witness.

I might say that I am a little bit alarmed at all the evidence that was presented before the former banking and commerce committee. It is all there to be read by any members of the present Committee who were not members of the committee at that time. Certainly the bankers were discussed in great detail then, and I would only like to say about the banking institution in Canada what has been said many times before this Committee, that it is outmoded and outdated; and that the protection that they have under section 88 fits these descriptions perfectly.

Mr. Kirk, do you not think the protection that the bankers enjoy under section 88 is similar to my saying to you: "You can do whatever you want on this earth, but you are going to go to Heaven anyway"?

Mr. KIRK: Well, yes.

Mr. WHELAN: I am only sorry that Mr. McLean from Blacks Harbour, New Brunswick, the member from Charlotte, is not here, because he could give us evidence to the effect that for many years he borrowed money in the United States because he did not have to borrow it under any type of regulation such as section 88, that he was finally in a position where the banks begged him for the business in Canada, and that he now borrows it without using section 88.

The main question of concern here is: Whose product is this, and why has anyone else got the right to use this product as their asset—can borrow on it for a liability, and so on—when they have never paid for it?

I have had instances brought to my attention at the moment, Mr. Chairman, in my own county, where farmers are just being paid—and not being paid in full—for products that they delivered last September. We have had four or five new small processing factories started, and the banks are helping them, but since this amendment and the injustices that are being done under it have been brought to the attention of the people of Canada the banks have been stricter on lending these people money. This is all to the good of the industry, so far as that is concerned, because some of these people are not good for the producer, or for the other processor, or for the consumer either. There are one or two in my area that I hope are put out of business so that I will not get any more letters asking me to make representations that they be paid.

I think, Mr. Kirk, that you would agree that practically every province has different legislation to protect their primary producers, whether of perishable crops or otherwise. This is why some kind of protection must be provided federally.

Mr. LAMBERT: May I ask Mr. Whelan one particular question? Whose commodity is the fertilizer that the farmer has bought and put on his farm? Whose product is the gasoline that he has bought and has got in his farm, though he may not have paid for it?

Mr. WHELAN: You can be sure that if he loses his whole tomato crop, or his whole fruit crop, or his broilers, or his crop of calves, the bank is going to get its money if the buyer of that product goes broke. It may not lend that farmer any money, but he certainly is going to have to pay for that gasoline, because he does not buy it from the people who supply him the contract, or anything else.

Mr. LAMBERT: No; I am asking you how it is that people are able to use goods that they have not paid for? This is the point, you see. I think one of the difficulties is the question of legal ownership, and this may be a fine line.

Mr. WHELAN: You are pointing out one of the main things in the case of a person who does go bankrupt. He is buying products from a producer who may be solely producing food. He has a contract with this processor, and he goes broke. He buys his gasoline from his local cooperative, or from some farm suppliers; and he buys his fertilizer. He has to pay for that. He may have to mortgage his holdings.

The bank is not going to lend him any money because we know how they act in these instances. They get it doubly. If they are successful in borrowing money from the banks the banks get their money on the product that they seize on the processor, and the farmer has to borrow that money from the banks again so that he can pay the supplier. The banks actually reap a little bit of benefit, in general, because that farmer would not have to borrow if the processor did not go broke.

The CHAIRMAN: Tell me, Mr. Whelan, are you aware of any oil company, or any fertilizer company, that sells all their products for a year to a single farmer?

Mr. WHELAN: I know of none, and I think it is a fact that there would be none, Mr. Chairman.

Mr. LAMBERT: It is a question of possession. The statement is made that use is made of goods that are not owned. The point I raise is this: When the farmer delivers his crop of tomatoes to the processor does he retain ownership of those tomatoes, or does he normally, by delivering them under an agreed price, pass title to them to the processor, and do they become the processor's? They are no longer the farmer's. He happens not to be paid. It is the same when the fertilizer sales outlet or the gasoline sales outlet delivers gas or fertilizer to a farmer or anyone else on a credit account. The farmer or the purchaser becomes the owner of the goods, even though he may not have paid for them.

The CHAIRMAN: I think Mr. Lambert has a point so far as the straight legal position is concerned.

Mr. WHELAN: I would point out one thing: this gasoline or fertilizer goes no farther than the farmer's place of business, whereas the primary producer's product goes into the processor's plant and is distributed all over the nation, and is often sold and consumed, and the primary producer is not paid for it. The gasoline and fertilizer have one destination, which is the primary producer's place of business—his farm.

The CHAIRMAN: Is not a more useful distinction than legal title the fact that in many cases the farmer's entire year's product is sold to one producer?

Mr. WHELAN: That is correct. This is where the great injustice is, that all his work, all his bills for his gasoline, fertilizer and everything are in that one crop and he has no protection. I should also point out that the evidence was clear when the Committee discussed this amendment, or Bill No. C-5, as I think it was called at that time. One of the marketing associations in Ontario wrote to one of the largest banking institutions in this country and asked about a processor. They said he was in good financial condition. He went broke about six weeks afterwards, and he had accumulated nearly 100 per cent more assets than he ever had before.

Mr. CLERMONT: On a point of order, and with due respect to Mr. Whelan, I thought we were studying the brief of the Confederation of Agriculture?

The CHAIRMAN: I think that is right. However, we have never been too strict about whether a member attending Committee should phrase his remarks in the form of questions or in the form of comment.

We have a unique opportunity here, because if I am not mistaken those things have changed since Sunday. Mr. Whelan is a working farmer who specializes in raising cash crops for processors.

Mr. WHELAN: For the income tax department.

Mr. LAMBERT: They are probably holding one another's hands.

The CHAIRMAN: Mr. Clermont, I think your point is well taken. Unless Mr. Whelan wishes to appear as a witness, perhaps we should ask him to make his comments brief if he does not propose to make them in the form of questions to Mr. Kirk.

Mr. LEBOE: Perhaps I can help by saying that almost all of the small saw mill operators throughout the whole of Canada are in exactly the same position. Once the wholesale lumber company, or whoever it is, purchases the lumber, the banks are continually supplying section 88 credit on the lumber inventory. But that individual saw mill man has no recourse whatsoever once he loses possession of that lumber. Once the lumber crosses the provincial boundary the forest service of British Columbia has no jurisdiction to collect any money.

I am not a lawyer, and if we are talking legally I am one of the fortunate ones because I can talk nonsense without being criticized, but it seems to me that if we are going to work on the basis of establishing ownership then we have to go right across the nation and apply it in all these primary occupations. It will be a precedent, and there is a very, very broad field. I think perhaps we have gone far enough.

The CHAIRMAN: I think Mr. Lambert's point is valid. I think, if I may speak from the point of view of law, that in a narrow, technical sense title does pass in these situations where actual title may be reimbursement for debt.

If I may say this to Mr. Whelan, I wonder if he is actually basing his point of view, and that of the federation, in the most favourable way, if he is basing on title rather than on the right to be paid for production. You are actually interested in being paid, not in title.

I think Mr. Lambert may have put forward quite a valid point in suggesting that you are basing your argument on title to the goods rather than perhaps on the moral sense.

Mr. LAMBERT: I do not disagree with the moral obligation to pay. We have a moral right to be paid.

Mr. WHELAN: Mr. Chairman, if I may comment on what Mr. Leboe has said—

The CHAIRMAN: You are putting a question mark at the end of your comment?

Mr. WHELAN: There is a big difference between a piece of wood and a tomato, a peach, an apple, a chicken, or anything else. A piece of lumber will not spoil. It is not perishable at all.

Mr. LEBOE: I might say, Mr. Chairman, in answer to the suggestion made, that once that producer loses his identity and loses control of that piece of wood it is just as perishable as any tomato.

Mr. WHELAN: No, it is not. It is much easier to identify, too.

Mr. LEBOE: It does not do any good to identify it.

The CHAIRMAN: Mr. Leboe is suggesting that if we take a toothpick-making machine we would perhaps feel that there is not so much difference between a stick of wood and a tomato going through a tomato juice-making machine.

Mr. WHELAN: But a toothpick would last a lot longer.

The CHAIRMAN: Are there any further questions?

Mr. WHELAN: Mr. Chairman, I would merely ask that, before your Committee makes any decisions, they read the proceedings of a couple of years ago on this very subject.

I would like to have the opportunity of appearing before the Committee as a witness, if possible.

The CHAIRMAN: Actually our schedule of witnesses is made up, but any member has the right to attend—

Mr. WHELAN: Mr. Chairman, I cannot attend and be challenged on making statements and act as a questioner of the witnesses, too.

The CHAIRMAN: I would suggest that we should perhaps note the request of Mr. Whelan and have the steering committee consider it. As you know, on Thursday the only business before us is consideration of a private bill for the incorporation of a life insurance company, and it may be that that will not take the time usually required by witnesses presenting briefs on the Bank Act. Perhaps if you hold yourself available on Thursday and have your remarks in order the Committee, on the recommendations of the steering committee, may be willing to hear your further comments on this very important question.

Mr. LAMBERT: Would your objective, which is the right of repayment and the guarantee of repayment, not be better met by the processor's having to post a bond as does a cattle drover who is purchasing cattle?

Mr. KIRK: Well, bonding provisions, of course, are—

Mr. LAMBERT: A bonding provision would certainly police the questionable operator.

The CHAIRMAN: May I ask you a question, Mr. Lambert? Would this not, in effect, put the decision of what processors are going to operate in the hands of the bonding company instead of, say, the bank?

Mr. LAMBERT: The witnesss are trying to put the burden on the shoulders of the banks. This might do so, in the case of those people who, as suggested by Mr. Whelan, should be out of business. I am not too sure that he is particularly worried about how they are kept out of business so long as the producers are protected from them.

If there is a requirement that you have to furnish a bond to guarantee the purchase price of the commodities then I think the producers are equally well protected.

The CHAIRMAN: I think, perhaps, we should invite Mr. Kirk to make any comments he may have on Mr. Lambert's suggestion about bonding. Perhaps the federation has some views on this, and, if so, I think we should hear them.

Mr. KIRK: We have no objection to bonding provisions, which are applicable in some products, particularly in livestock dealerships and so on. Our point is that we see absolutely nothing unreasonable about doing this in the first place, and we think we should do it.

I do not accept the suggestion that we should abandon this in favour of a province-by-province effort to change the bonding sense of it.

Mr. MORE (*Regina City*): Mr. Kirk, is not what you are asking that if the bank makes a mistake in judgment in granting credit they have to pay for it, to the benefit of all others concerned in the operation?

Mr. KIRK: We are saying that the principle which has been established for many, many years in both the Bankruptcy Act and section 88, of the special vulnerability of the wage earner, for example, is equally applicable to the farmer.

Mr. MORE (*Regina City*): I would agree with regard to perishable crops. They have to be delivered to a processor or they are lost. It seems to me that that is not unreasonable. However, you get into broiler production and livestock, which are not perishable to the same degree, by any means—you can question whether broiler operations, in general, are farm operations, for that matter—it seems to me that they are a sophisticated business today in the light of the production process. Your suggestion to extend this beyond perishable goods raises some doubt in my mind about whether it is reasonable.

Mr. KIRK: Sir, I really fail to see the significance of this distinction because he is a producer of livestock, or poultry, or even of grain that is non-perishable, beans for pork and beans, for example, are delivered in a dry state. Nevertheless the position of the producer is precisely the same in all those cases. This product is taken by the plant; it is made into a marketable product, either in cans or in some other form; and it represents the producer's livelihood. I must say that I do not see the validity of narrowing this to the aspect of perishable crops only.

If I understand it rightly, one of the intents in doing so was simply to limit the applicability of this new provision. There may be an opinion which we do not

share. The further you can limit it the better it is for, perhaps, the reasons that Senator Lambert has stated.

The CHAIRMAN: To avoid some puzzlement on the part of those reading these minutes across Canada, may I say that Mr. Lambert is a distinguished former minister of the crown and Speaker of the House, and therefore, he is a member of the Queen's Privy Council; but I do not think he has as yet been summoned to the Senate.

Mr. KIRK: I am sorry.

The CHAIRMAN: If he had been, I do not think we would have the benefit of his observations and questions because this is a committee of the house and not a joint committee, which is as it should be, if I may say so.

Mr. KIRK: My apologies.

The CHAIRMAN: You do not need to apologize for calling Mr. Lambert a Senator. It is just a question of—

An hon. MEMBER: He just looks old enough to be a Senator!

Mr. LIND: May I ask Mr. Kirk a question?

The CHAIRMAN: I will recognize you as soon as Mr. More finishes. I really just interrupted because I wanted to stop the continued use of "Senator", to the puzzlement of others across the country.

Mr. KIRK: My apologies, sir.

Mr. MORE *(Regina City)*: I just have one other question, Mr. Kirk.

Mr. Whelan has indicated that in his area there are processors that he wishes would go out of business. This suggests that there must be alternatives to these processors available to the people of that district. Why would a producer continue to patronize a processor whose record is so bad?

Mr. KIRK: Of course, it is perhaps inherent in the situation that the producer does not know that their records are so bad.

Mr. MORE *(Regina City)*: Mr. Whelan knows because of the complaints of producers, he says.

The CHAIRMAN: This is after the fact.

Mr. KIRK: You do not necessarily know. I agree that if a producer had an alternative, and if he knew that this man was going to go bankrupt the day after he delivered, then he perhaps would not deliver; but in many cases, as I have pointed out, even if he recognized that the risks were great, and had come to know that they were great, he still might have no alternative.

I agree that if, the year before, when he was contracting, he understood this, he would presumably hesitate to contract. The position is that he does not know, or he knows too late.

Mr. LIND: I would like to ask the witness, Mr. Kirk, a couple of questions. First of all, Section 88(5) of the act covers perishable products of the farms. Are not the products contracted for by the individual farmer with the producing cannery, or is there not a contract drawn up to take the whole crop for the year?

Mr. KIRK: Very often, not always.

Mr. LIND: Not always. The method of payment concerns me a bit. When the farmer delivers this product to the plant is he paid partially immediately or is there any payment made or any advance made on fertilizers? Sometimes these processors buy the fertilizer in advance to put on the farm. Is this not true?

Mr. KIRK: You mean—

Mr. LIND: On the contract.

Mr. KIRK: Yes, sometimes they do; that is right.

Mr. LIND: Is there not a partial payment made on initial delivery?

Mr. KIRK: Well, my understanding is that practices vary; sometimes the product can be delivered in sort of the flush of the season and the payment is not made on delivery, and then if payment turns out to be delayed and there are difficulties, it is too late from the farmers' point of view to do anything about it.

Mr. LIND: When it is a one crop product and a perishable product for the year I can see that. But now we are coming to whether you want to include livestock, poultry and milk. These are products where the whole year's crop is not delivered at once, is it?

Mr. KIRK: No, no.

Mr. LIND: Usually in the case of livestock it is a cash deal. The drover buys it and pays for it before he lifts it from the farm and takes it in. Is this not the usual practice?

Mr. KIRK: Well, that is a very common practice.

Mr. LIND: It is the most common practice in my information. Well, then, why would you like to expand this to include livestock because, farmers do not usually sell out all their livestock at one time in the year but usually it is a continuous process.

Mr. KIRK: Well, I would think that normally the shipper of livestock would not get into as acute a deficit position, a creditor position, in that not as much money would be owing to him or would accumulate; but certainly the settlement for livestock, for hogs, for example, is not made immediately. It has to be slaughtered and graded before he even knows what he is to be paid. Then settlement is made later. Now, I agree that under normal procedures the amount owing to him by the plant would not accumulate in the quantities it would, perhaps, in canning crops. I agree with that, but it certainly can exist in significant amounts.

Mr. LIND: My experience has been that people selling hogs sell them and usually they get their cheque the following week. All hogs do not mature for the market at the same time; it is a continuous process. If a person was marketing 100 hogs they do not all mature the same week so he ships them over three or four weeks and he would have an indication then whether the packers were going to pay him or not.

Mr. KIRK: Well, as I say—

Mr. LIND: There is not the same risk involved; that is what I am getting at.

Mr. KIRK: Well—

Mr. LIND: There is not the same risk in the livestock and the poultry and broilers. They run five crops a year with these broilers.

Mr. KIRK: Yes.

Mr. LIND: Is that not so?

Mr. KIRK: Yes, one of those crops can amount to—

Mr. LIND: Yes, I realize one of the crops, but it is not like the person with the tomato crop. The whole year's perishable item can be gone in two or three weeks. This is my question: why should these be included? Now, milk is paid for 12 times a year, is it not?

Mr. KIRK: Yes.

Mr. LIND: Well, then, there is only a one-twelfth risk there. You see it is the risk involved.

Mr. KIRK: Well, I think that needs breaking down. I do not see why they should not be included from the point of view of protection on the amount that is involved, in fact. I would agree, as we recognize in our submission, that perhaps the lengthening of this period might not be as significant in some products.

Mr. LIND: Is it any more risky for the farmer, in the case of livestock, poultry and milk, than it is for the fertilizer dealer who supplies this to the farmer on credit? Who is taking the bigger risk? Livestock, poultry and milk are not an entire year's production that goes on sale at once. It is spread out over a twelve-month period.

Mr. KIRK: Well, take the case of broilers. Suppose you did deliver five times a year?

Mr. LIND: Yes.

Mr. KIRK: With the margin on broilers that can represent all of your net for the entire year.

Mr. LIND: I realize that it can but it is not your entire year's stock, though?

Mr. KIRK: No, but it is your entire year's livelihood.

Mr. LIND: Yes, but you go back to Mr. Leboe's question here. The same thing applies to the small sawmill operator. He can ship at one time, all his year's production. Now, we are not trying to get a special clause into the act to protect him under Section 88. What about the bank that advances money; they need this protection, too or they will not advance this money?

Mr. KIRK: Well, on that point I believe in our federation submission on earlier subjects it was recognized that a similar situation could exist for the small woodlot operator, for example, or a fisherman. I certainly would not take the position that, given a comparable problem, there should not be comparable action taken except that fishermen are not my particular business, that is all.

Mr. LIND: Well, you agree though there is not as great a risk for a shipper of livestock, poultry or milk that there is for the shipper of perishable crops such as tomatoes?

Mr. KIRK: Yes, I agree with that.

Mr. LIND: And this section of the act was brought in and Bill No. C-5 for protection in a particular instance, was it not?

Mr. KIRK: That is right, but I do not agree the risk is insignificant or unimportant. That is what I do not agree with.

Mr. LIND: Well, risk at any time is not insignificant. It is there but everybody must judge the risk and if we do take away all judgment with respect to a risk are we not doing away with our free enterprise system?

Mr. KIRK: Three months wages is not a total year's risk either but that is the provision in the clause and it is considered significant. My point is that one fifth of a year's delivery of poultry is, from the point of view of income, livelihood, more significant, a heavier risk than three month's wages even. It can represent the full net for the year.

Mr. LIND: Other than that the fellow who works for wages has to depend on them to keep his family together; whereas the fellow who is delivering the poultry has a profit angle in there too that is over and above what his costs are?

Mr. KIRK: I am saying that the net profit, if you like, from his poultry operation, just as with the wage earner with his wages, is what he must have to live. The deliveries at one time can represent a very large proportion of that profit and the loss of it. His income position is jeopardized just as much and just as truly as in the case of the wage earner.

Mr. LIND: Well, you can say the same for every general storekeeper, every merchant, every businessman across Canada, can you not?

Mr. KIRK: Yes, you could.

Mr. LIND: The same principle applies, does it not? But the problem here is that these producers need credit to operate and they need credit from the banks for working capital. If we restrict them too much the bank will not be prepared to take the risk; is that not right?

Mr. KIRK: That is right. But, I think the storekeeper does not normally have all his eggs in one basket from the point of view of whom he is extending credit to, for example, which I presume would be his risk. He has many creditors, and I do not quite see the parallel there.

Mr. LIND: What I am comparing here, of course, is the inclusion of livestock, poultry and milk.

Mr. KIRK: Yes; I understand, and I agree if a man delivers milk 12 times a year that his risk, probably, is not as great as the tomato producer who delivers his whole crop in a week. There is just no arguing that point, sir, I agree with it. But, I still think the risks are significant and worth protecting the farmer from in these other cases.

Mr. LIND: What I wanted to get was your viewpoint about protecting all people who are taking a similar risk. Would you include all people or just the farmer?

Mr. KIRK: As I said, we do think the position of the farmer is, not unique, but it has special characteristics. I am not prepared to argue that if similarly special characteristics can be shown to exist say, in fisheries, nevertheless it should not be done for them because they are not farmers. That would not be my position.

The CHAIRMAN: I think perhaps we would want to leave that to the group representing the fisheries industry.

Mr. KIRK: That is right.

Mr. LIND: If you were the banker now and you were loaning the money and you found out that this provision was in Section 88, would you be as anxious to take the risk that maybe you would otherwise?

Mr. KIRK: I am not a banker, sir. The point I made is that the people I represent, and I must say I share their view, are simply sceptical of the proposition, if that is what you are getting at, that these provisions we are asking for would hurt the farmer and the industry because of the restriction of credit it would create. We are just plain sceptical of that. We do not think that would happen.

Mr. LIND: You do not believe that the banker loaning money to this processor will look into the fact that he has to guarantee or take second place to the extent of $5,000 per producer?

Mr. KIRK: I am not saying the banker will not pay attention to that; do not misunderstand me. As we pointed out in our brief, it appears, again without being an expert, that the provisions of the bill make it possible to take types of mortgages outside of Section 88 that also cover these products. That is why we are suggesting that Section 88 is not going to do the whole job. But, we think we should go ahead with it on that section and do the whole job under the Bankruptcy Act.

The CHAIRMAN: Are there any further questions on this topic, Mr. Lind?

Mr. LIND: Not on this topic. I have questions on a later portion of the brief.

The CHAIRMAN: Yes. If there are no further questions on this topic perhaps we could move on to the views of the federation on interest rates. Mr. Lind is this the area you wish to cover?

Mr. LIND: Yes, I just want to know who you are referring to when you want the true interest put out on all types of loans. Are you referring to the banks only or do you want to get into finance companies and loan companies?

Mr. KIRK: Finance companies, department stores, acceptance companies, everybody that engages in transactions that involve the extension of credit. That is what we think should be done in a broad policy.

Mr. LIND: Even on these short term chattel mortgages where drovers are financing stock on farms, and so on?

Mr. KIRK: Yes, I would think so. Our point is that when you get into transactions involving credit the man who is purchasing this credit should know what price he is paying for it.

Mr. LIND: Yes, but I am getting at the common practice of drovers putting cattle on the farm for a certain percentage of the gain, and so on. That should be put down in simple interest form too, should it?

Mr. KIRK: If it is a contract that involves the sharing of the price on an agreed basis that is something more than extension of credit. That is a joint undertaking to share the returns on the enterprise, is it not?

Mr. LIND: I thought when you entered into a contract with a finance company that it was a joint proposition too? It is quite a common practice for a

farmer starting to have cattle supplied to him by some outside interest. This is why I wondered if you wanted that included in the disclosure on this thing brought forward?

Mr. KIRK: If the contract is of such a nature that the farmer is not clear on what the undertaking is—I am not sure what the provisions of the contract are. You say a sharing of the returns?

Mr. LIND: Yes. They hope that the cattle will gain in value or weight, or something during the year, which is the same. There is a common interest charge on their money.

Mr. KIRK: I do not know exactly the nature of the transaction you are speaking of. If the undertaking to share the returns is related to what the price of the cattle will be, then that is sharing in the enterprise in another sense.

Mr. LIND: You know of the practice, do you not? Cattle are put on the farm, perhaps in the fall of the year, and they are fed during the winter and so much on the gain. Other times they are put in and the farmer is allowed, if they are milk cows, to take the cheque off the milk for the year for feeding them and then in the spring of the year, when the cattle have gained weight, or are in better condition they are sold. The drover takes a share of the profit. Now, whether it is a surcharge or interest on his money, or what it is, I think it should be disclosed, the same as finance companies, should it not? This is quite a common practice, I understand.

Mr. KIRK: Where there is an agreement that the returns depend upon what some future price will be, then you can, in advance, determine in terms of an interest rate what the farmer is paying the drover on his money. I would say just offhand that you could not do that. But in the transactions we are speaking of the terms being charged are known and where it is known then it should be expressed in these terms.

The CHAIRMAN: Mr. Clermont followed by Mr. Lambert.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, on page 4 of the French brief, you say it is very important "that the cost of agricultural credit should be kept at reasonable levels, and its availability ensured". What do you consider a reasonable level? What rate of interest? Does your Federation have any suggestions concerning the rate? "A reasonable level" is rather vague, as far as expressions go.

(*English*)

Mr. KIRK: Some of our member organizations vary in their view of this. As you know, in Quebec, for example, the Union Catholique de Cultivateurs would say a reasonable rate was something like that charged by their provincial loan board which is pretty low, $2\frac{1}{2}$ per cent, or something like that.

Mr. CLERMONT: It is.

Mr. KIRK: And they have reasons for believing that they should get credit on that basis, as public policy, for stimulating agricultural improvement. But that is a subsidized program. There is an element of subsidy, I suppose, in some of the loaning of the Farm Credit Corporation. But, on a more national basis, I

would say if you are talking about a reasonable rate, probably 5 per cent would be considered reasonable.

(*Translation*)

Mr. CLERMONT: What is the rate presently charged by the Farm Credit Corporation?

(*English*)

Mr. KIRK: The Farm Credit Corporation?

Mr. CLERMONT: Yes.

Mr. KIRK: It is 5 per cent on some of its credit and I think it is a little more on another portion. There are two rates.

(*Translation*)

Mr. CLERMONT: The term loans. The long-term loan is at 5 per cent? In the Farm Credit Corporation, the federal Farm Credit Corporation? On page 5 of the French brief, Mr. Kirk, the Federation says: "The chase to maintain agricultural credit charge at moderate levels, through government policy...." One must admit that "The principle of ensuring the availability of agricultural credit by government action of keeping down the cost of such credit, should be adhered to, and it may well be, that new and bolder policies are needed". What do you understand by this expression, "new and bolder"?

(*English*)

Mr. KIRK: I will be perfectly frank about it, I hope. As I pointed out in the brief, our organization did not see its way clear to opposing this 6 per cent ceiling retention. I think we were acting responsibly. We had a hard time on this, I think. It is a difficult question, as I think you will agree.

Now, there is the Farm Improvement Loans Act, for example, and there is this guarantee provision on the 5 per cent interest rate under that act. Similarly, the position of the federation right along has been that there should be no increase in that rate, right? Now, if the general level of bank interest rates goes up, then I think there might be increasing difficulties of the availability of this credit under farm improvement loans at 5 per cent. That raises the question —that is intermediate credit—as a matter of agricultural policy, whether or not action should not be taken to ensure that this credit stays available at 5 per cent. It might be that would involve some subsidization to make it viable under conditions of higher bank interest rates.

Mr. CLERMONT: Thank you, Mr. Chairman.

Mr. LAMBERT: First of all, I would think you would agree that at the present time the rate of 5 per cent under the Farm Credit Corporation loans is long term and involves a public subsidy, because the government is not able to get its money at that 5 per cent rate. My other point has to do with the statement on page 7 of your brief with regard to interest charge disclosures. You would agree with the proposal that all bank loan charges, interest rate, and so on, be expressed as a simple annual rate of interest?

Mr. KIRK: That is right.

Mr. LAMBERT: Well, I do not know how you can tell me how to compute a simple annual rate of interest on a demand loan which involves some ancillary charges, because a demand loan may be for six months or it may be for eight months or nine months, but the term has not been expressed beforehand and therefore how can you, at the initial part of the contract express it as a simple annul rate of interest? There is a little mechanical difficulty here.

Mr. KIRK: On this point, sir, our policy is that we have always said that you cannot just state this in legislation, that this should be done, and leave it at that. You must have a way of applying it and that way will involve making rules for the game, to deal with problems like this. What we are saying, for example, in the case you make, is that it might be necessary to establish a rule that these finance charges and the interest rate on whatever basis it is on a demand loan, were that demand loan to stay in force for a year, this would be the interest rate. You would have to do something to get it straight?

Mr. LAMBERT: I am just asking for your explanation. In the event that a demand loan be for a period of one year the annual interest rate would be this under these circumstances?

Mr. KIRK: Yes, I agree you cannot measure uncertainties and imponderables. It cannot be done.

Mr. MORE (*Regina City*): Mr. Kirk, if I understand your representation regarding interest, with regard to banking, it is that the market-place decides, but the other decisions for what you call a reasonable rate of interest are political and should be done by other means?

Mr. KIRK: That is right; they are matters of public policy.

The CHAIRMAN: Are there any further questions of Mr. Kirk on the federation's views on interest rates and disclosure? If not, I think we should thank Mr. Kirk for his very useful presentation this morning. This afternoon our witnesses will represent CUNA International who will be the spokesman for the Caisse Populaire and the Credit Union. I declare this meeting recessed until 3.45 p.m.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I think we are in a position to resume our meeting. Our witnesses this afternoon represent CUNA International Incorporated. Appearing on behalf of this organization is Mr. Robert J. Ingram, the Executive Director of CUNA International Incorporated. When I introduce the delegation I would ask them to identify themselves so we will know who they are. First we have Mr. Ingram, as I have already said; Mr. A. R. Glen, President of CUNA International Incorporated; Mr. W. Moxon, President of the Credit Union National Association; Mr. A. W. Wagar, President, Canadian Co-operative Credit Society; Mr. L. R. Tendler, Vice-President of the Canadian Co-operative Credit Society and who is also the manager of the Saskatchewan Co-operative Credit Society.

As the delegation knows, is is ordinarily our custom to have the briefs presented in summary fashion rather than having them read in their entirety, but again I suggest to the Committee that as the submission before us today is

very short—less than four complete pages—that I think it would be just as time-saving to have Mr. Ingram, who intends to present the brief, read it in its entirety. However, before he reads it I would invite him—because I think it would be useful for the record—to tell us briefly, with respect to CUNA International Incorporated, just what it is, what it does and who it speaks for.

Mr. ROBERT J. Ingram (*Executive Director of CUNA International Incorporated*): Thank you very much, Mr. Chairman and gentlemen. By way of introduction and to add some clarification to the introductory remarks of your Chairman and also to clarify in the minds of the Committee who these different organizations are and the reason for their existence, CUNA International, as the name implies, is a world-wide organization made up of state, provincial, country-wide or nation-wide credit union leagues, as we call them. On the other hand, the National Association of Canadian Credit Unions is a purely Canadian association, whose members consist of the various provincial leagues of credit unions and the central credit type organizations that serve that particular membership in that province. The Canadan Co-operative Credit Society is a third tier in the structure of the credit union movement. It is a Canadian federal central credit union, whose members are made up of the provincial central credit unions together with certain co-operative organizations who transact their business on an interprovincial basis. The Canadian Co-operative Credit Society is a peculiar organization in one sense in that it is organized under the Co-operative Credit Associations Act, which is a federal act.

These, Mr. Chairman, by way of a very brief introduction, are the different types of organizations or the component parts of the organized movement in Canada. The Canadian Co-operative Credit Society, as far as the credit unions are concerned, has in its membership four provincial central credit societies. I should make it clear to the committee today that we are not speaking for the Desjardins federation at Levis, Quebec. Perhaps some of the committee members, if not all of them, are quite aware of the functions and the operations of that organization. We have a very close working liaison with them and they, I think, on the whole are very sympathetic toward and in general agreement with the brief which we have presented to you. On the other hand, I want to make it very clear to the committee that we are in no way speaking for that particular organization. Our submission is as follows: (*See Appendix JJ*)

The CHAIRMAN: Thank you, Mr. Ingram. May I suggest to the Committee that it seems to me that the brief itself can easily be divided into a number of topics which, in turn, include the points that CUNA International made to the previous Minister of Finance when the Porter Commission Report came out. It seems to me that the first whole paragraph on page 2, with reference to federal jurisdiction over credit unions, should be the initial topic. The next paragraph appears to constitute a separate topic; it deals with the interest rate ceiling. The following paragraph seems to constitute a topic with respect to the disclosure of interest rates, and I think that together with that topic we could take the question of trust companies, and so on, in the consumer loan field. The next topic could be the matter of the links of the credit union and caisse populaire movement with the clearing system and the improvement in general of it, and finally as a topic we might have the comments of the witness on that part of the brief which deals with the method of incorporation of banks. After we have ex-

hausted any discussion we may have on these topics then, of course, it is open to the members to question the witness on any other aspect of the legislation which are relevant and on which they consider a contribution could be made. I have already told Mr. Ingram that the other people with him are free to deal with any questions that are posed. I now invite the members of the Committee to pose their questions firstly on the views of CUNA with respect to what you might call federal regulation of credit unions and caisse populaires.

Mr. LAMBERT: Mr. Chairman, I wonder if the witness would agree that related banking practices are, by the constitution of the B.N.A. Act, reserved to the exclusive jurisdiction of the government of Canada?

Mr. INGRAM: Yes, I would think so.

Mr. LAMBERT: Under those circumstances is it not a further assumption that anybody wishing to engage in banking or banking practices would come under a federal unbrella of legislation?

Mr. INGRAM: Yes, but I think one of the major problems, of course—and this will probably come up during our ensuing discussion—is, first of all, the definition of what constitutes banking.

Mr. LAMBERT: What constitutes banking and banking practices. I put it to you that banking is definable as banking practices.

Mr. INGRAM: It may very well be, but to my limited knowledge of the so-called banking industry I have not come across any legislation which clearly defines banking as such.

Mr. LAMBERT: I agree with you there is no legal definition set out, but possibly you are aware of the statement of the Minister of Finance in October to the effect that now is the time perhaps, to have a serious look at the definition of banking, and I am asking for elucidation in this regard.

You make the point at page 2, item No. (4), that provincial jurisdiction should be safeguarded, and this is presumably on the basis that caisse populaires and credit unions are organized, although not incorporated, under provincial statutes and therefore—

Mr. INGRAM: They are incorporated, sir.

Mr. LAMBERT: All right, they are incorporated or organized, and therefore from that point on they come under provincial jurisdiction. I think you will agree with me that broadcasting companies and aircraft operating companies may be, and usually are, incorporated by provincial charters, but that is where the provincial jurisdiction ceases. As soon as they step into an exclusive federal field they are subject to federal regulation. I now come back to the original point I made to you that banking and banking practices were under the exclusive constitution of federal jurisdiction. I find it, therefore, rather intriguing that the argument should be made that provincial jurisdiction must be safeguarded. Jurisdiction over what?

Mr. INGRAM: Jurisdiction over the operations of credit unions and the services they provide for their members.

Mr. LAMBERT: But if it is banking and banking practices, where is the provincial jurisdiction?

Mr. INGRAM: Perhaps this is one of the areas of disagreement as to whether or not credit unions are in the banking business.

Mr. LAMBERT: If you can show me how some of the operations of the central caisses in this city, and in some of the adjoining cities in Quebec, are any different from most of the banks, then, sir, I will have grave difficulty in following you.

Mr. INGRAM: It seems to me, sir, that this is a matter the federal authorities will have to discuss with the provincial authorities. At the moment we are under provincial jurisdiction. Our relationships in the province from which I come have been good, sympathetic relationships. We have worked closely with our provincial government to safeguard the interests of our members in terms of their investments in the credit union. Once the federal and provincial governments have come to a decision as to where the respective jurisdictions begin and end, then I think we will have an observation to make.

Mr. LAMBERT: My point is that gradually as the years have gone by the operations of credit unions and other near-bank organizations have crept more and more into the field, and since there was no destination and no, shall we say, prohibition in the Bank Act, that they have entered into the field by default.

Mr. INGRAM: Mr. Chairman, to the extent that the Canadian Co-Operative Credit Society exists under federal legislation, the Co-Operative Credit Associations Act, whereby it gets its authority, and the provincial centrals, which are members of the Canadian Society, by becoming registered under that same legislation, this is the extent to which they are now supervised federally.

Mr. LAMBERT: What is the extent of the supervision?

Mr. INGRAM: It includes an annual inspection of each of the members by the office of the federal Superintendent of Insurance.

Mr. LAMBERT: By the department. All right, that is fine.

Mr. INGRAM: Plus a liquidity requirement, as set out in the act.

Mr. LAMBERT: I am interested in, shall we say, the hierarchy of the credit unions in Canada as defined by the witness. Is there a form of reserve between members of centrals of the central Canadian body? What is the equivalent of a federation for the Canadian body? I think you called it the National Association of Credit Unions. What is the relationship between it and its members?

Mr. W. MOXON *(President, Credit Union National Association)*: The Credit Union National Association is strictly a service organization. It does not participate in the financial operations nor has it any funds in the sense of shares or deposits in any of the credit unions in Canada. It is a service organization designed to promote credit unions, to engage in educational activity for credit union officers, to provide a forum for discussion of new services and matters of this nature.

Mr. LAMBERT: Would it be fair to say that it is a parallel to the Canadian Bankers' Association?

Mr. MOXON: Oh, no.

Mr. LAMBERT: I mean vis-à-vis its members. I may be facetious but the wording seemed to rather parallel—

The CHAIRMAN: The record cannot show the expression on the witness' face.

Mr. LAMBERT: There is no such financial relationship, therefore, that if a member credit union found itself in difficulty for one reason or another it might have recourse to the national association as a lender of last resort or reserve?

Mr. MOXON: No, there is not.

Mr. LAMBERT: What provisions do you have for lender of last resort or reserve in the event that there is some press or rush on a particular credit union?

Mr. L. R. TENDLER (*Vice-President, Canadian Co-operative Credit Society*): Mr. Chairman, can we go back to the provincial level for a moment?

Mr. LAMBERT: Yes, whatever it is.

Mr. TENDLER: I come from Saskatchewan, so as far as the credit union movement is concerned I will refer to the Saskatchewan operation.

In Saskatchewan, in addition to the central credit union or the Co-operative Union of Saskatchewan, as it is known, we have a mutual aid fund which is set up under provincial act and to which five board members are appointed; one from the government, one by the Saskatchewan co-operative credit society and the other three by the Credit Union League of Saskatchewan. This board of directors administers a fund which accumulates and it is based on a percentage of the net earnings of each credit union each year. It is somewhere in excess of a million and a half dollars at the present time. Other provinces have similar programs, whether they call them reserve boards, mutual aid funds, stabilization reserves, or what have you. As mentioned, this is one area of protection for the credit union that might get into difficulty.

The other is a strong, healthy central, which we have in Saskatchewan, as they have in most other provinces. This is the organization to which credit unions come when they desire to borrow funds. We can think of the time when funds became a little tight over the period of almost the last two years and some credit unions found it necessary to borrow temporarily. The central cut off their loaning operations until some of the funds were repaid and they could meet the demands from their members, but it was nothing serious.

Mr. LAMBERT: These are the two sources of reserves, you might say.

Mr. TENDLER: That is right.

Mr. WAGAR: Except, Mr. Chairman, the mutual aid fund is not really a lender of last resort. The credit unions do not borrow from that fund except when they are in real difficulty in terms of bad debts, I suppose.

Mr. TENDLER: I assumed that Mr. Lambert had gone into this area too. Maybe I read something in there which I should not have. I should mention that a long time ago a couple of credit unions in our province did get into a little difficulty, but as a result of this mutual aid fund no credit union member in Saskatchewan has ever lost a cent that he invested in the credit union. Does this help answer the question?

Mr. LAMBERT: Oh yes. Does this apply pretty well across the country in all provinces where the credit unions operate?

Mr. TENDLER: I will let Mr. Ingram answer. He has a better knowledge about all across Canada. I am well versed in Saskatchewan, although I have some knowledge of the others.

Mr. R. J. INGRAM (*Executive Director, CUNA International Inc.*): Mr. Chairman, the provincial leagues all have their own central credit unions or central credit societies. All but two have some form of stabilization fund, or the popular term today is deposit insurance.

An hon. MEMBER: Which two do not have this?

Mr. INGRAM: The two who do not have it at the present time are Newfoundland and New Brunswick, but all of the others do.

Mr. MORE: How are these funds derived? Is there an assessment on each individual credit union?

Mr. A. R. GLEN (*President, CUNA International Inc.*): In British Columbia there is an assessment upon the assets of the credit union. They are carried on the books of the individual credit union as an asset, if you follow me, and each year an assessment is made. The law provides that the stabilization fund can accumulate until it reaches 1 per cent of the total assets of all of the credit unions of British Columbia. They have been accumulating this fund by a series of assessments over the years. I think we are about on the last one to get to the 1 per cent level. At that point we may stop to look at it to see whether it needs to be increased or decreased, whatever the case may be.

Mr. LAMBERT: My last question, Mr. Chairman, refers to the paragraph which reads:

> First of all, we compliment the government on its wisdom in not including credit union and caisse populaire centrals under the Bank Act,

Now we have the pertinent words:

> an impractical and

And here is a much stronger word:

> inequitable recommendation of the Porter Commission.

You make those statements and I wish to ask why.

Mr. INGRAM: How much time do we have, Mr. Chairman?

Mr. LAMBERT: Well, all right. The word "impractical" is not overly strong but "inequitable" is fairly strong language. You must have cogent reasons for these conclusions.

Mr. GLEN: Well, Mr. Lambert, I will take the first bite at this apple. The situation refers to the reserve requirements that the Porter Commission recommended. These comments are found in the other presentation that we made. We put it this way:

> The Commission's proposal that every central should hold on deposit with the Bank of Canada up to 8 per cent of the liabilities of its members to their respective members, rather than 8 per cent of its own liabilities, is manifestly unfair in relation to its proposals for other banking institutions.

Our arithmetic indicated that we, as compared to other financial institutions, would be required to keep with the Bank of Canada roughly twice the reserves that were required under this formula. That is where we—

The CHAIRMAN: Then you go on to mention two other points of enlargement on that. Perhaps you should read those as well. I think it would help strengthen your argument.

Mr. GLEN: Yes:

> The Commission does not propose any of these should hold reserves in the Bank of Canada with respect to the liabilities of their customers—only with respect to their own liabilities.

The CHAIRMAN: It is with respect to existing banking institutions?

Mr. GLEN: Yes.

> It would be intolerable to compel centrals to provide cash reserves against the liabilities of their members when they have no control over the volume of deposits these autonomous organizations make with them.

We felt, Mr. Lambert, that the commission had not properly understood the relationship of the individual credit union to its central. We are not a branch system. The commission appeared to have totalled up the assets of all the credit unions and then totalled up the assets of the central and put the two together and said, "Now, you will maintain your reserves on that total." This gives the effect of doubling the reserves because the credit unions are keeping their surplus funds in the central, and these fluctuate from time to time. Central's own liabilities are adifferent thing.

Mr. LAMBERT: If the Commission's recommendation had been that reserve deposits with the Bank of Canada would be on the basis of the members' deposits with the centrals, then that would have been much more equitable, I take it, from a reserve point of view?

Mr. GLEN: Yes, that is right.

Mr. LAMBERT: Were there any other reasons why you should not come under the Bank Act as to inspection or otherwise was deemed to be impractical?

Mr. INGRAM: The other point that I am sure we made was the very sticky constitutional issue where the credit unions are totally under provincial incorporation and provincial supervision, and the Porter Commission had made recommendation of a type that at that time and even now we are not willing to live with in terms of coming under federal legislation and federal supervision. The centrals, as Mr. Wagar pointed out earlier, already come under federal legislation. It is a different act, of course, it is not the Bank Act. This we could live with, provided there are some changes made in that act which will allow them to do the things that they were originally hoping to do.

Mr. LAMBERT: I am rather intrigued about this provincial supervision. After all, a broadcasting company or an aircraft operating company has to file an annual return. It has certain provincial jurisdiction under the Companies act of those provinces, but outside of that its entire operations are supervised. For example, an aircraft operating company cannot buy an aircraft, it cannot take it off the ground, it cannot put a radio in it, it cannot do a thing without the

consent of the Department of Transport. We have not heard them cry that since they have been incorporated and, from a company's point of view, supervised by the provincial government, that the federal government has no jurisdiction.

Mr. INGRAM: I should point out, then, that credit unions are subject to certain federal requirements at the present time. Corporation returns are one example. The Corporations and Labour Unions Returns Act is another. But by and large the credit union movement's experience with provincial jurisdiction up to at least this point in history has been a very highly satisfactory one. This is one of the reasons we are a little reluctant to suggest any changes unless we know what the changes are.

Mr. LAMBERT: I suggest there may be a bill right now on the Order Paper, Bill C-221, dealing with pension plans, which also may bring you under federal examination by the Superintendent of Insurance for a pension plan for your employees.

Mr. GLEN: How would it do that?

Mr. LAMBERT: I am speaking from memory, and subject to correction, but I have a sneaking suspicion that you are in there.

Mr. INGRAM: Well, as employers.

Mr. LAMBERT: Employers versus employees, and any pension plans you may have.

Mr. INGRAM: And involvement with the Canada Pension Plan?

Mr. LAMBERT: No, straight pension plans. It is a surprising document, but there it is.

Mr. WAGAR: Mr. Chairman and Mr. Lambert, I do not know that your comparison between air transport and credit unions has any real significance. We may be up in the air at times but I do not think that we are endangering life and limb, and so on, which I suppose an aircraft out of control might be.

The CHAIRMAN: But I do not think Mr. Lambert's point can be overlooked, which is that while aircraft operating firms, like yourselves, are set up by the exercise of a provincial authority, their operations are regulated by the federal government because the operations in one aspect or another are deemed to come under federal jurisdiction.

Mr. LAMBERT: Under the constitution.

The CHAIRMAN: Under the constitution. I think that is Mr. Lambert's point, and in that sense the members of the Committee may feel that there is, in fact, a parallel between the aircraft situation—

Mr. LAMBERT: And a broadcasting company.

The CHAIRMAN: —and a broadcasting company.

Mr. INGRAM: Except that I might make this distinction, that credit unions are completely restricted to operating within a very clearly defined local sphere of membership.

Mr. LAMBERT: So is a broadcasting company and so is a small charter aircraft company.

Mr. INGRAM: Are they confined provincially?

Mr. LAMBERT: Oh, yes. They may operate sometimes just out of the one little local airport.

Mr. INGRAM: But then, sir, do they not have a sort of privileged position in that field, so they do not object if there is some debate about whether they can take off because they do not have a radio? In our case, if we were an air line, we would prefer to go to our own provincial government to get the permission rather than wait to go through Ottawa. It is a long way to come, sir.

Mr. MOXON: I think the other aspect, Mr. Chairman, is the fact that, shall I say, the constitution had defined air transport as definitely coming within the jurisdiction of the federal government. Now, historically credit unions have been formed under the jurisdiction of the provincial government.

The CHAIRMAN: On the contrary, there is no reference whatsoever to air transport in the B.N.A. Act, but there is a reference to banking, interest and currency.

Mr. GLEN: Perhaps we should reverse positions and take the air lines.

Mr. LAMBERT: Thank you, Mr. Chairman.

(*Translation*)

The CHAIRMAN: I would now ask Mr. Clermont to ask his questions, followed by Mr. Cameron.

Mr. CLERMONT: I have not followed the line of questioning. Should the first question deal with provincial and federal jurisdictions? Then I understood we would deal with the rate of interest, the clearing system, banking, corporation financing and then proceed to general discussion.

The CHAIRMAN: First of all the questions will deal with the subject of jurisdiction.

Mr. CLERMONT: On the question of jurisdiction I will waive my turn, but I would like to ask a question of the CUNA International representative. Although the brief mentions the Caisses Populaires many times, I think I understand that today they are not appearing on behalf of the Caisses Populaires.

The CHAIRMAN: It might be a good idea to have an understanding in that respect.

(*English*)

Could you perhaps enlarge on this a bit? Is the caisse populaire movement found amongst the membership of CUNA International?

Mr. INGRAM: Yes. There are several caisse populaire federations, leagues or associations, again organized on a provincial basis, scattered throughout every province of Canada in addition to Quebec. That is why in our brief and in our submission we listed some of the organizations identified with this submission where there are other caisse populaire groups in other provinces—

Mr. CLERMONT: Outside of Quebec.

Mr. INGRAM: Outside of Quebec. That is right, sir.

(*Translation*)

Mr. CLERMONT: Therefore, in the field of jurisdiction, I waive my turn Mr. Chairman; I will come back regarding the rights of interest.

The CHAIRMAN: I think we will deal with the other subjects shortly.

(*English*)

Mr. Cameron, I will give you the floor now.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Ingram, I am not quite sure whether I should address my question to you or to Mr. Tendler. I wanted to get more particulars from you as to the source of the funds that are held in the mutual aid fund to which you referred and in the credit unions centrals to which either you or one of the others referred. Do the contributions to these funds bear some relationship to the total assets?

Mr. TENDLER: Mr. Chairman and Mr. Cameron, shall we take the mutual aid fund which we have in Saskatchewan first? Someone else can cover the British Columbia operation.

In Saskatchewan credit unions contribute an amount equal to 5 per cent of their net income—this is after paying operating expenses, interest on deposits, et cetera—which is paid into what we refer to as the mutual aid fund. This fund is administered by the board of directors, as I previously mentioned, and I would suggest that there would probably be no relationship of total assets to that fund unless the total assets stabilized, and then over a period of time there would be a relationship. As to the funds in the central in Saskatchewan, the Saskatchewan Co-operative Credit Society, again there is no special relationship between its assets and the assets of the credit union movement. Historically the credit unions have used it as their central credit union and have invested their surplus funds in this central. While it was invested on a short term basis, it has stayed there for many years, in addition to what you refer to as the demand deposit account. Our assets are in the neighbourhood of $75 million at this time, which is about one-quarter of the total credit union assets in the province of Saskatchewan.

Mr. MOXON: Mr. Cameron, as far as the mutual aid fund in B.C. is concerned, or as we call it, the reserve fund, the credit unions pay one-fifth of one per cent of their assets per year until the total of the fund reaches one per cent of the total assets of the credit unions in B.C. I think, as far as the B.C. central is concerned, the operation is parallel to the Saskatchewan Co-operative Credit Society.

Mr. GLEN: I might add, Mr. Cameron, if I may, that in British Columbia the individual credit unions in addition are required to keep liquidity reserves. Our liquidity reserves run between a minimum of 8 per cent and a maximum of 12 per cent of the share capital, which constitutes the majority of the funds of most of the credit unions, and 25 per cent of what we could call demand deposits —that is anything withdrawable in less than a year—and taking these two sums together they represent, in the average credit union, a form of liquidity reserve backed up by the borrowing power from the central. In the case of extreme dislocation, the phasing out of an industry or an economic dislocation in a particular area, then the reserve fund which Mr. Moxon mentioned comes into the picture. The reserve fund may assist either by purchasing the assets in order to liquidate, by making a grant in aid or by making a loan at a predetermined or negotiated rate of interest. It may guarantee the position of the credit union until matters have stabilized. It has enough flexibility to enter into most situations. Of

course, with respect to the defalcation situation, this is covered by a bond which has been developed by the credit union movement and the bonding requirements are written into the provincial act. According to the size of the credit union they must carry this type of position bond, fidelity, burglary, hold-up, and all the rest of it. This is roughly the protective pattern we have developed.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is it true of all the individual credit unions in B.C. that they maintain 25 per cent of their demand deposit liabilities?

Mr. INGRAM: Yes, that is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is that pretty well true throughout the country?

Mr. INGRAM: That is fairly standard across Canada. There are some slight variations and they may be as low as 15 per cent, but the general pattern is similar to that which Mr. Glen said applied to B.C.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): By the way, is this 25 per cent a provincial legislative requirement?

Mr. INGRAM: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, this brings me to my next question. In view of this very large reserve requirement under provincial law, I must say I find it difficult to understand why you should be so anxious that provincial jurisdiction should be safeguarded, and not be prepared to examine the possibility of having your organization attached to the reserve system in Canada with much more modest reserve requirements.

Mr. GLEN: Mr. Cameron, it is our understanding that whatever these modest reserve requirements might be with the Bank of Canada, they are contributed free to the Bank of Canada, whereas our present reserves at least earn us something. In my own credit union our liquidity reserves are kept above the statutory minimums for reasons of the local economy. We invest these reserves in the manner permitted by the provincial legislation, which is in government obligations, having regard, of course, for the maturities, and so on. Thus we maximize the use of our reserves; at least we are getting some earnings on them. Further than that, it is a matter of policy to invest those reserves, if we are going into government issues, in the issues of our own government and of our own community because we feel that the money has been contributed, in the first place, by the people of our credit union and it should be kept at work, as far as possible, in their interest in their own area. We say that the contribution of a sizeable amount to a reserve that pays us nothing is something that causes us some concern.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): What is the position of the funds that you subscribe to the central organization which, I gather, form an additional reserve of one per cent of your assets? Are those earning assets, too?

Mr. GLEN: It depends on the activity of the fund. The fund itself, of course, invests the total amount—the unrequired portion, at least—and the fund is valued at the end of each year and each credit union is notified whether its share of the fund which is carried on our books has increased in value or decreased.

However, this is not taken into the income of the credit union, it merely shows that we have gained or lost in an asset, as the case may be.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So as far as the individual credit union is concerned this is a dead reserve?

Mr. GLEN: That part of it, yes. We contribute this because we want to be in a position to assist other credit unions that may get into difficulty. We recognize the responsibility on the part of all of us to protect each other, to protect the member and the amount he may have invested in the credit union, and this antedates deposit insurance by quite some time. We are constantly working to improve this system and to make it more effective in the job it has to do.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you ever given any consideration to the possibility, if the credit unions continue to expand at the rate they have done in recent years, that it might become necessary for them to be attached to the reserve system of the country in order that the central bank authorities could have proper control of the total money supply?

Mr. GLEN: We have examined that situation. At the moment we have reached no conclusions. I think, as responsible people elected to operate credit unions and their central organizations, that we always have to be on the alert to safeguard our operations. When the danger signals appear, then we would, I think, take corrective action, but just how we would do this would depend on the circumstances at the time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I wonder if you could tell me something about the nature and extent of the provincial supervision of the credit unions?

Mr. GLEN: I can only speak for British Columbia.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes. We can ask someone else for the others.

Mr. GLEN: This is a department of the attorney general. I believe they now have eight inspectors. We are inspected annually. We pay a fee for the inspection service. We receive very detailed reports on the results of the inspection. We are required within 60 days to satisfy the inspection department that the areas which have been found to require correction have been corrected. I think the reports eventually find their way into the attorney general's department, and through our provincial organization we work very closely with the inspection staff. This is the job of the league, which is a sort of fraternal association, you might say, and it is constantly visiting the credit unions and talking to the directors and managers to seek out any evidences they may find that things could perhaps be operated on a better basis and if, in the final analysis, they feel there should be some remedial action taken, then their policy is to call upon the inspection department to make a special inspection.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Perhaps you cannot answer the next question I am going to ask you. Have you any means of knowing how the inspection of credit unions by the provincial authorities compares with the type of inspection they make of other financial institutions in the province?

Mr. GLEN: No, I have no means of knowing.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I wonder if you, Mr. Ingram, could tell me about the inspection service in the province of Ontario. Is it similar to that described by Mr. Glen?

Mr. INGRAM: Yes. However, there are certain clear differences. First of all, on a broad Canadian pattern, the inspections are not necessarily carried out by the provincial government. For example, in Quebec the provincial authorities have delegated those duties to the federations themselves. They offer a grant, for example, to the Caisse Populaire movement at Levis to police themselves. The same thing with the other leagues and federations in Quebec. In Prince Edward Island, the same situation prevails where the government allocates those duties to the credit union movement itself to do on their behalf. In Ontario, the situation is very similar to what Mr. Glen has just stated applies to B.C., with an additional exception, however, that the provincial league itself self-polices the credit unions there. In other words, their own inspection service has been developed over the years as a result of experience and is in addition to that provided by the provincial government in that province.

Mr. GLEN: Could I add one other item of information. Under British Columbia provincial law when a credit union reaches a certain level of assets it has been required to have an external audit by a chartered accountant or other professionally qualified person; and that auditor must certify as to the soundness of the operation. This is something which many professional people are rather reluctant to do, and we have found that the external audit under those terms is a much more searching one than it used to be when this was not a requirement.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In the light of difficulties that some other financial institutions have encountered in the Province of Ontario, Mr. Ingram, would it be correct to suggest that there is a much more rigorous inspection of credit unions by the provincial authorities than there are for other financial institutions?

Mr. INGRAM: I can only speak for the credit unions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, can I put it this way. Is it possible for a credit union in Ontario to get into the sort of financial difficulties as, shall we say, the Prudential company, under the terms of provincial inspection of credit unions?

Mr. INGRAM: It is certainly possible. I do not think there is a financial institution anywhere that cannot get into difficulties under a certain set of circumstances. But we are rather comfortable, I think, in feeling that through the kinds of safeguards we have built into the movement, such as inspection and adequate bonding programs and stabilization programs, to the best of our knowledge we have reduced this risk to a very bare minimum.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): My final question would revert again to the suggestion I made to Mr. Glen just now. Can you see any means by which the credit union movement could, perhaps, be reorganized to overcome the difficulties Mr. Glen was speaking of earlier in answer to Mr. Lambert of bringing them under the Bank Act on an equitable basis?

The CHAIRMAN: Perhaps you might add this further part to your question: or some other federal legislation?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, some other federal legislation, not necessarily the Bank Act; some other federal legislation dealing with financial and banking operations. I gather that the difficulty, and I can see the difficulty, is the nature of the organization as it is now established. Have you given any thought to any possible means of reorganization?

Mr. INGRAM: There are two possibilities we have mentioned, although we have not got into either one of them to any specific depth at this time. One is the improvement of the Co-operative Credit Associations Act or the possibility some time in the future of a co-operative bank. Either of these, I think, is a rather remote answer to your question, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): What type of amendments would you propose to the Co-operative Credit Associations Act?

Mr. INGRAM: I think Mr. Wagar is the best man to answer that one.

Mr. A. W. WAGAR (*President, Canadian Co-operative Credit Society*): Well, Mr. Chairman and Mr. Cameron, not only what type of amendment would we proposed but we have already proposed several. In summary, there are about 10 or 11 suggestions on amendments. This was prepared and presented to the Superintendent of Insurance in Ottawa as proposals for amendments to the Co-operative Credit Associations Act.

The CHAIRMAN: That is Chapter 28 of the statutes of 1952-53.

Mr. WAGAR: That is the one, yes.

The CHAIRMAN: What is the date of your proposals?

Mr. WAGAR: August 17, 1965, and mind you this has been going on for ten years and we finally got some form of agreement, at least, between the office of the Superintendent of Insurance and ourselves that this kind of approach would be considered. One of the requirements of the present legislation is that in order to add a member, or in order for any other provincial central credit society to become a member of the Canadian Co-operative Credit Society, requires an act of the parliament of Canada and we suggested that there be an amendment that other centrals might become members of the society with approval of the Governor in Council rather than by an act of parliament. The second suggestion is on sources of borrowed money. At the present time the Canadian Co-operative Credit Society has only two sources of borrowed money. One is from its own membership and secondly from the chartered banks. They can borrow from these two sources and we have suggested that the Canadian society should at least be given similar powers to the provincial credit societies who can now go into the money market and borrow funds from other than their members or the chartered banks. We would like this power to borrow money from other sources extended.

At the present time loans in excess of 10 per cent of shares and deposits to any one member cannot be made. This is the limit. We have suggested that that be increased, provided that the term does not exceed one year and provided that two thirds of the directors approve the loan that it should be able to lend to one member more than 10 per cent of its present shares and deposits.

We also suggested, while we were not particularly looking at this field as a field that we might go into, that the Canadian Co-operative Credit Society

should be allowed to take a first mortgage on real property in terms of security for a loan, not in terms of going out and providing mortgages but as further security to a loan to a member.

The liquidity reserves—and I do not know how long you want me to take on this. Maybe the best thing, as a matter of fact, would be to read this. There is about a half a page here.

The CHAIRMAN: If you could summarize the main points, I think actually that is what Mr. Cameron had in mind. I was going to suggest that perhaps you make a copy of this available to our Clerk who would have it reproduced and circulated to the members for more detailed study.

Mr. WAGAR: Very well.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: You can do that now.

The CHAIRMAN: I beg your pardon?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You can do that now, if you like, Mr. Chairman rather than have Mr. Wagar read these things out. I was interested to know what the amendments would be.

Mr. WAGAR: One is with respect to liquidity reserves of our provincial centrals, and another one is that 25 per cent of the liquidity reserves required now for provincial centrals should be allowed to be included in their liquidity if it were on deposit with the Canadian society. Present deposits of the Canadian society do not count as liquidity reserves for provincial centrals who are members.

There is no amendment required for investment powers. With respect to borrowing limits, we asked for the borrowing powers to be 15 times capital, guaranteed fund and surplus rather than the present 10 times. This is in line with the Trust and Loan Companies Act dealing with the same point.

With respect to clearing facilities—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We are coming to that.

Mr. WAGAR: —we are coming to that. That is one of the points, and that members of provincial centrals might be allowed to borrow from one another. We are not sure that this cannot be done now. But at least there is nothing specific saying it can be done. That about covers the recommendations we have provided.

The CHAIRMAN: I suggest it would be helpful for our study of this matter if we had a copy of this presentation and you could arrange with the Clerk to give her a copy to have it reproduced. I think that is the best way to deal with it further. Do you have any further questions on the topic of federal and/or provincial jurisdiction?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Just one question before we move on. How many centrals are now in the Association?

Mr. WAGAR: There are four.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There are four. Which are four?

Mr. WAGAR: British Columbia, Saskatchewan, Manitoba and Ontario.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you.

The CHAIRMAN: Are their further questions from members on the topic of jurisdiction? Perhaps I might just clarify something with respect to Ontario, what exactly is the name of the central, the title?

Mr. WAGAR: Ontario Co-operative Credit Society.

The CHAIRMAN: And its funds come from the deposits made to it by its members who are credit unions. I gather also on occasions that it—

Mr. WAGAR: And some co-operatives.

The CHAIRMAN: —would borrow from the banks?

Mr. WAGAR: Yes, and the money market.

The CHAIRMAN: And the money market; I gather it also keeps its own funds on deposit with the chartered banks?

Mr. WAGAR: That is right.

The CHAIRMAN: Now, exactly what service does the federally incorporated co-operative credit society perform for its constituent members, particularly the centrals?

Mr. WAGAR: The intention at incorporation, of course, was that the Canadian central would act as a central for provincial credit societies, for the movement of funds between provinces where there might be excess funds in one provincial central that could be used in another provincial central, and that these funds could be deposited with the Canadian Co-operative Credit Society so in that sense it takes deposits from its members and it can make loans to its members.

The CHAIRMAN: That is being carried on at this time?

Mr. WAGAR: That is right, but to a very limited degree right at the moment.

The CHAIRMAN: Why is that?

Mr. WAGAR: The tight money situation made it so that in the last year, at least, most of our provincial centrals were in a borrowing position and had no funds to deposit in the Canadian Co-operative Credit Society and one of the reasons why we asked for amendments was to allow us to raise funds through some sources other than our own members.

The CHAIRMAN: Are you called in for consultation from time to time by the Bank of Canada?

Mr. WAGAR: No; by the Superintendent of Insurance from time to time.

The CHAIRMAN: But with respect to matters of monetary policy, monetary expansion, restraints and so on, are you not in formal consultation from time to time?

Mr. WAGAR: No, we are not.

The CHAIRMAN: You are not and yet I note in your brief that you indicate you have 4.3 million members and have accumulated $2 billions in savings which indicates some impact on the monetary situation of the country. Do you feel that the operations of the central bank through the chartered banking system affects your operation, or do you feel you might be in a position to operate outside of impetus given by the central banks with respect to monetary expansion and contraction? Maybe I made my question too long.

Mr. WAGAR: I know what you mean. I think the money situation generally, as far as the Canadian Co-operative Credit Society certainly is concerned, is that in terms of money tightening the Canadian Co-operative Credit Society will certainly notice the effect whether the Bank of Canada imposes that on the Canadian Co-operative Credit Society or not. Now, this certainly is one of the things that has affected us in the last year.

The CHAIRMAN: How will it notice the effect?

Mr. WAGAR: How will it notice it, because it will not get deposits from its members.

Mr. GLEN: I might say, Mr. Chairman, as an example of what happens in a local credit union, usually it arranges its line of credit with its central and in our case the central merely advised us: "we are sorry but your line of credit has just been chopped right back and you will have to exist on your own resources."

The CHAIRMAN: Perhaps I am going over something that may be evident to members but why would the central be chopping back the line of credit?

Mr. GLEN: Because their lines of credit are getting tight, too.

An hon. MEMBER: From the chartered banks.

Mr. WAGAR: From the chartered banks, yes.

The CHAIRMAN: So, in a sense if the central bank operates through the chartered banks with respect to monetary control you are, indirectly, affected even though you are not, in so far as consultation is concerned, in direct contact.

Mr. INGRAM: I think what you are getting at is that we are responsive, perhaps not as quickly as the chartered banks themselves but we certainly are responsive directly or indirectly to monetary fiscal policy established by the Bank of Canada.

The CHAIRMAN: Do you feel it would be helpful to you if you were in direct contact with respect to consultation with the Bank of Canada?

Mr. GLEN: What do you mean by "consultation"? About what?

The CHAIRMAN: Well, the same thing that the Bank of Canada talks with the banks about.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, would you allow me a supplementary question.

The CHAIRMAN: Yes, certainly.

Mr. CLERMONT: With regard to the figure mentioned in the brief, 4,300,000 members, 21 percent of the population, and 2½ million in deposits. Are these figures only for the 9 provinces or do they include the province of Quebec?

(*English*)

Mr. INGRAM: It would include the province of Quebec sir.

Mr. CLERMONT: Thank you, because I understand the Caisse Populaire in Quebec have about $1½ billion of deposits.

Mr. INGRAM: I think that is right.

Mr. CLERMONT: Thank you.

Mr. GLEN: We have observed that on a number of occasions, sir.

Mr. CLERMONT: It would be different if it were for only for nine provinces instead of ten; it would be $4 billion instead of $2½ billion.

The CHAIRMAN: You mentioned the Co-operative Credit Societies Act and the changes you have asked the federal government for. Could you summarize for us your aims in seeking these changes, what you want to achieve aside from administrative efficiency. What do you want to achieve over-all by having these changes made? What are you looking for?

Mr. WAGAR: First and foremost I suppose is to provide a better service to our members. As you can appreciate, when one of our members gains the statute of the Saskatchewan Co-operative Credit Society with assets of $75 million and others not as large but certainly large, that many times the provincial centrals are able to get locally a service that otherwise the Canadian Co-operative Credit Society might provide if it had access to funds that it has not in its present operation.

The CHAIRMAN: In other words, you want to improve the ability of the Canadian Co-operative Credit Union Society to act as a specialized lender of last resort to the credit union movement in a national way?

Mr. WAGAR: Right.

Mr. LEBOE: Mr. Chairman, I wonder if I might ask a question in connection with raising of funds other than from the members? Do you not think you are now then moving into the real business of banking and loan companies when you move into that area? At the present time you do borrow from the banks, I believe; the various credit unions do borrow from the chartered banks and that sort of thing, in the way of obtaining funds? But, you are speaking here, I believe, of raising money on a more or less permanent basis in the way of debentures or stocks or something else; is that right?

Mr. WAGAR: Well, not necessarily on a permanent basis, no. It would be more or less in terms of raising short term funds to provide loans to our central members. We can borrow from the banks now but the provincial centrals now operate in the money market and borrow funds from that source.

Mr. LEBOE: I understood you to say that you wanted to have permission to raise other funds?

Mr. WAGAR: From other than chartered banks and members, that is correct.

Mr. LEBOE: Well, are you not really getting into the banking business when you do this?

Mr. WAGAR: Partly, I suppose, if that is part of the definition of the banking business, yes.

Mr. LEBOE: I think you can rest assured that very shortly there has to be a definition of banking and when that happens certainly this will be one of the points I think would be brought into play in that connection.

Mr. INGRAM: I am not so sure, sir, that the function of borrowing funds by any kind of financial institution, or company for that matter, constitutes part of a banking business. I, personally, am not willing to accept that definition.

The CHAIRMAN: Perhaps we can get to the other point on this topic which I wanted to clarify. You said that as far as you are concerned credit unions are not in the banking business. Perhaps you could tell the Committee how and why?

Mr. WAGAR: Savings and loans.

The CHAIRMAN: Perhaps you could illustrate your point of view as to how you differ, really, from the banks. Now, we accept the fact, as you say in your presentation to the Minister of Finance, you do not turn over your deposits as quickly as banks. We are accepting that and we are accepting the fact that everybody who keeps deposits with you is also an owner.

Mr. INGRAM: That is the difference.

The CHAIRMAN: Yes, I know but in so far as what you actually do for those who are owners, you take money from them which is payable more or less on demand; you offer checking facilities; you make loans. In that regard how do you differ from banks? And I say this without derogation to the valuable role as a movement but I am interested just from the point of view of helping our inquiry.

Mr. GLEN: Well, not all credit unions, of course, offer a negotiable order system. In fact, the great majority of them do not. We in the lending end by and large can only lend what our members put in plus what we are able to scrape up from other sources. But, as I understand it, we cannot create credit.

The CHAIRMAN: You mean you lend out only dollar for dollar what is deposited?

Mr. GLEN: That is right.

The CHAIRMAN: In all cases?

Mr. GLEN: Unless we can borrow some money and then we will use that temporarily.

The CHAIRMAN: Well, why have you been telling us all about keeping reserves?

Mr. INGRAM: We are not completely restricted to the lending of our own members' funds. We do borrow from outside sources but I would say there are several, what we call banking services, that are not available to credit unions. For example, travellers cheques, foreign exchange, letters of credit, government deposits and so on.

The CHAIRMAN: You would like to have government deposits?

Mr. INGRAM: Have you got any?

The CHAIRMAN: If I may say, to some members of the Committee you mentioned what seemed to be peripheral aspects but when it comes to taking money on deposit over the counter and keeping it and loaning it out and making use of cheques, in many cases, how do you differ from a bank?

Mr. INGRAM: These are not cheques; we are not allowed to call them cheques; they are negotiable orders.

The CHAIRMAN: No matter what you call them, I am a member of a credit union in Windsor and I have a passbook and if I want to make a deposit, as far as I am concerned as a member, you talk about shares, I make deposits or withdrawals and I think I can write a cheque. I can get a loan and I wonder if to me

or to many other members of this particular credit union we really feel we are that much different as far as services are concerned. I am not talking about the spirit or the feeling of ownership.

Mr. WAGAR: It is a similar kind of service but no more so than trust companies or many other organizations that do a similar type of thing.

Mr. LEBOE: Mr. Chairman, I wonder if I might ask a question at this point with respect to one of the remarks made in connection with loaning out nothing more than is taken in. Are you saying that the creation of a deposit by making a loan does not enter into your calculation of those deposits which you have on hand at all?

Mr. GLEN: We are required in our provincial legislation in British Columbia to deduct that, when making up our financial statement, from our asset picture and liability picture.

Mr. LEBOE: The note?

Mr. GLEN: We make a type of loan to buy shares in the credit union. This is done because of an insurance we carry on the savings and on the loans of a member and that is a service that is given to encourage the regular savings on the part of members, but these do not figure into the shares or deposits of the credit union. Only the paid up portion does.

Mr. LEBOE: In other words, what you are saying is that if I went in and borrowed $10,000 from a credit union and I left a compensating discount in the form of shares out of that loan, it would not form part of the loanable assets of the credit union?

Mr. GLEN: That is correct; that is right.

Mr. LAMBERT: Do you net an account of an ordinary member, say, a member in good standing who has proper shares and gets a loan of say $5,000 for an addition to his house and during the course of payment out he also puts in other deposits of savings of his? Do you net out his account?

Mr. GLEN: Not individually, no.

Mr. W. MOXON (*President, CUNA International Inc.*): The only time the netting is done is in the total assets of your credit union, and this is only done when you have borrowed the money to purchase shares. So you borrowed the money and turned around and deposited right into your share account.

Mr. LAMBERT: I see. So therefore what Mr. Leboe was saying was in essence correct, that you do create deposits by way of loans to members?

Mr. WAGAR: Mr. Lambert, I think, you raised a good point when you asked about borrowing $5,000 to make an addition to your house, or for whatever purpose, loans are made on the basis that most of the loans—I do not know what percentage it would be—most of the dollars that are borrowed from a credit union eventually leave the credit union to pay for the improvements on the house or whatever the loan was made for. In fact, the deposit may be there for a very short term, if it is transferred immediately and put through as a loan, but if not the funds are advanced out of the loan to pay for outside services of some kind.

Mr. LEBOE: Mr. Chairman, if there was a residue at all would that residue be taken into consideration on the amount of money you could loan out? Suppose there was a total residue under the circumstances that have been outlined, would it affect the credit union's ability to make loans to other people or would it be, as it were, in a rest account which could not be touched because it was part of a loan?

Mr. WAGAR: In most cases, I would suggest that if a member comes in and asks for a loan of $1,000 and it eventually turns out that he does not need the $1,000 he does not take the loan and in fact, therefore, nothing happens.

Mr. LEBOE: You are getting into the mechanics and I am trying to get at the principle involved here as to what would take place because I think we must be interested in the principle of the operation. If there was a considerable residue that did not actually leave the bank, I might, for instance, change my mind about a thing and there is some time before I pay the loan off, because of other circumstances, I may have invested my money somewhere else, I come back again to this point. I am wanting to know whether or not this amount of residue would affect your ability, in the total assets of the credit union, to loan out money?

Mr. WAGAR: It would count as a deposit, yes.

Mr. LEBOE: This was the point I wanted to make, yes, in principle, not in actual fact.

The CHAIRMAN: It is clear that at the present time there is no uniform Canada-wide standard of inspection or method of inspection?

Mr. WAGAR: Correct.

The CHAIRMAN: That is correct. You already have begun to develop an experience of dealing with the one instrumentality of the federal government through the co-operative societies act, so that at some point your movement must have felt it would be advisable or advantageous to have a central approach to regulation and maintenance of standards, because I gather this act could not have come on the books unless you people had something to do with it.

Mr. INGRAM: A central approach to service, not to regulation; the central approach was to try to serve our centrals interprovincially.

The CHAIRMAN: But part of this act involves inspection and supervision by the Superintendent of Insurance, a federal official.

Mr. INGRAM: That was a condition.

The CHAIRMAN: But you were willing to accept it and I gather have not found it onerous or unhelpful.

Mr. INGRAM: Well, we have because we are asking for changes in that legislation to make it work the way we want it to work.

The CHAIRMAN: Well, but not the concept of the Superintendent of Insurance being involved; it is a question of experience under the act leading you to ask for changes which seem to be well founded, as a matter of fact.

(*Translation*)

Now since we have finished with this item we can pass to the rate of interest.

(*English*)

Mr. MORE (*Regina City*): Mr. Chairman, I do not want to interrupt the trend of the discussion, but according to the evidence here, you borrow from banks and show rates from 5 to 6 per cent in your borrowings. In these arrangements for borrowing from banks are you required to keep a compensating balance and to pay a service charge on your account other then the 6 per cent?

Mr. TENDLER: Yes Mr. More. In 1965, in addition to paying the 6 per cent, a portion of the line of credit which was in use, we were asked to make a deposit equal to 10 per cent of the total credit, whether we used it or not.

Mr. MORE (*Regina City*): The first time this request was made to you was in 1965?

Mr. TENDLER: It was in 1966, as far as the Saskatchewan Society is concerned, and 1965 as it applied to Manitoba and Ontario.

The CHAIRMAN: Was this request related in any way to services regarding the handling of your account? Was this what they told you?

Mr. TENDLER: I am glad you did say "tell" because there was nothing in writing. It was suggested that the increased cost of funds, which we could not argue because the cost of money had gone up, was the primary reason for this approach.

Mr. MORE (*Regina City*): But prior to 1965 the bank handled your loans and your account without these ancillary charges?

Mr. TENDLER: Without compensating balances.

Mr. INGRAM: But this did not mean that the rates were the same across Canada.

The CHAIRMAN: The rates of compensating balance?

Mr. INGRAM: No, the rates of interest charged by the banks to the centrals or the credit unions for borrowings. These were flexible.

Mr. MORE (*Regina City*): Well they might be flexible, but in this statement of your borrowings there does not seem to be any great flexibility because your modal rate, which I presume is the average rate, shows 6 per cent throughout for all areas.

The CHAIRMAN: You should identify the book as the International Credit Union Year Book for 1966.

Mr. MORE (*Regina City*): It does not show any flexibility of variation whatsoever; it shows 6 per cent straight through.

Mr. INGRAM: As the modal rate?

Mr. MORE (*Regina City*): Yes.

The CHAIRMAN: Well I think in statistical language "modal" means, and I am subject to correction, the one that is found most frequently.

Mr. MORE (*Regina City*): Or average?

Mr. INGRAM: No, it is the most common.

The CHAIRMAN: It is not the arithmetic average; it is the most popular and most common.

Mr. MORE (*Regina City*): In other words, you are reporting on your borrowings, and you do not show the true cost of money.

Mr. TENDLER: I do not know all the background based on those statistics Mr. Ingram, because they are prepared by the research man; I do know what was charged to us. We have been getting what they call, the prime rate, by the chartered banks, which was five and three quarters until late 1965: it then went to 6 per cent, and the 6 per cent rate has been maintained. Now that was the cost of our borrowing.

The CHAIRMAN: This heading on page 33 is actually a summary. The use of the word "modal" would be an indication I presume that there are other rates as well.

Mr. INGRAM: And this is for 1965, Mr. Chairman. It is a 1966 year book but the statistics and figures are for 1965 unless otherwise indicated.

Mr. MORE (*Regina City*): I have just looked at it. I see a variation of from 4½ to 6 per cent in American bank loans to credit societies, but there is no variation whatsoever in the Canadian loans according to the report.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have a supplementary question.

The CHAIRMAN: I think we have been a bit unfair to cut in on Mr. Clermont, because we have ventured into the question of interest rates and so on. I actually thought, in recognizing Mr. More that we were discussing the question of jurisdiction.

Mr. MORE (*Regina City*): I told you I did not want to interrupt but you allowed my question.

The CHAIRMAN: I am not being critical of you; it is my own error because I thought that it was a relevant matter.

Mr. CLERMONT: I have no objection, Mr. Chairman, if Mr. More wants to continue his line of questioning.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could I ask a supplementary question?

The CHAIRMAN: Certainly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You spoke of the demand for compensating balances beginning, I think you said, in 1966 in Saskatchewan. Was there any change then in the banks policy with regard to charges for clearing your members' cheques?

Mr. TENDLER: No.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Did they still continue to make the charges?

Mr. TENDLER: The same charge applies. We operate under a schedule which we refer to as schedule B.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The reason I asked was that there was some suggestion that compensating balances was going to take the place of cheque charges.

Mr. LEBOE: I have a supplementary on compensating balances. Do you encourage your customers that are making loans to have compensating balances, the same as the banks do, to offset this.

Mr. TENDLER: No; we reviewed this situation, and maybe we comply a little with another topic that is coming up here, divulging the proper interest rate. We have increased the interest rate to our members, but have forgotten entirely about compensating balances. We will, say, charge 6½ rather than a 6 per cent rate, assuming that the one half of one per cent will come close to compensating for the compensating balance we in turn must keep.

The CHAIRMAN: In other words, do you consider the compensating balance the bank imposes upon you as being no different than an increase in the interest rate for borrowing the money.

Mr. TENDLER: This is correct.

The CHAIRMAN: In other words, you have matched that by increasing the interest rates charged your customers.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is translated into interest rates.

Mr. TENDLER: Well we have taken the other approach, increasing the interest rate rather than playing round with compensating balances.

The CHAIRMAN: You consider that the same thing.

Mr. TENDLER: The net results are the same.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you found it difficult equating an increase in the interest rate with the compensating balance?

Mr. TENDLER: We have had no difficulty in equating it from our point of view. Now what our members will say in 1967 will be something else. At this point I have heard no complaints.

Mr. MORE (*Regina City*): You say you increased your interest rates from 6 to 6½ or whatever it might have been. This is due to the increased cost of money; you had to do this. The banks are under a ceiling and when they were faced up with the same situation that you were faced up with, they had to resort to compensating balances. They probably will put up this argument.

Mr. TENDLER: I agree with your statement to this point, but had we not been faced with compensating balances, I would suggest to you, Mr. More, that we would have carried on with our 6 per cent rate—and I speak only for the Saskatchewan organization.

Mr. MORE (*Regina City*): Thank you.

The CHAIRMAN: Mr. Lind?

Mr. LIND: Do you have any other source of funds; I am thinking of the short-term money market, for instance.

Mr. TENDLER: We in the society utilize our investment portfolio and place it with investment dealers in Toronto, who raise money from the market. But it is secured by investment; in other words, by dollars we have used to purchase government bonds.

Mr. LIND: But you do go into the short-term money market.

Mr. TENDLER: We go into the short-term money market on a secured basis. It is not just on our paper; it is on a secured basis. We have pretty hefty liquidity

requirements. Five per cent of our deposit must be maintained by way of cash on hand, in transit, or on deposit in the chartered banks; and a further 15 per cent of our deposit can be maintained in certain government securities—that is the government of Canada, the province and certain municipal securities.

Mr. LIND: And I note you carry an extra reserve of 5 per cent.

Mr. TENDLER: So we have a minimum of 5 per cent in cash, in transit, in the bank, plus a minimum of 15 per cent in these others; or if the cash portion is in excess of 5 per cent we can reduce the portion of unencumbered bonds. By the way, these must be unencumbered too.

Mr. MORE (*Regina City*): Do you invest in short-term chartered bank notes?

Mr. TENDLER: In Saskatchewan we do; I do not think too many other provinces do. Our situation is peculiar because our credit union members are primarily in the rural agricultural area. We have one or two things in which some of the people here I think are interested: one is the amount of grain sold in the first week of January, and another is the wheat board payment which is to start being distributed today, and they affect our operation quite considerably.

The CHAIRMAN: As a Canadian representative from Saskatchewan, do your banking connections, sir, indicate to you under what circumstances they might stop asking you for compensating balance?

Mr. TENDLER: No.

The CHAIRMAN: Did they indicate they would ever stop?

Mr. TENDLER: No, there was no discussion on whether it might stop.

The CHAIRMAN: Did they relate it to a freeing of the bank interest rate in any way.

Mr. TENDLER: No. As I recall, I did ask "when the new act comes into being, and if the interest rates will be as set out in the proposed act, will this in turn mean that we will pay 6½ or 6.66 or 7 per cent and forget about the compensating balances." And I did not get a yes or no answer, that this will be dependent upon circumstances.

The CHAIRMAN: That is very interesting. What about the other gentlemen here; have they faced this compensating balances situation?

Mr. MOXON: In British Columbia, the British Columbia Central Credit Union does have to maintain balances in the chartered banks.

The CHAIRMAN: Is this something recent?

Mr. GLEN: I believe so, although I cannot speak accurately.

The CHAIRMAN: In the past two years?

Mr. GLEN: Yes.

The CHAIRMAN: And all you gentlemen agree?

Mr. INGRAM: It is pretty well standard.

The CHAIRMAN: Have your banking connections indicated to any of you when you might stop being called upon to maintain these balances?

Mr. GLEN: No.

Mr. CLERMONT: Mr. Chairman, I have a supplementary. On that compensating balance question, Mr. Chairman, are you required to have a compensating balance only on loans, or is it required for your ordinary accounts, checking and so on?

Mr. TENDLER: I will have to refer to Saskatchewan because I am much more knowledgeable on that respect.

Mr. CLERMONT: That is all right.

Mr. TENDLER: The compensating balance we were asked to carry with the bank related to the total approved line of credit, whether we used any or all of it. Suppose, as an example, we had a $5 million line of credit; we were asked for a $500,000 compensating balance.

Mr. CLERMONT: But you are aware that although some companies or individuals do not borrow money from the banks they issue so many cheques on their accounts that it is an unprofitable proposition for the banks, and these people are obliged to have a compensating balance and to pay a services charge as well.

Mr. TENDLER: May I say that in addition to the compensating balance, we have to meet our clearings, which are quite considerable; and we must pay charges on items we deposit in the bank as well as items we receive from the bank. So compensating balances has not in any way, shape or form affected the charges we pay for the use of the clearing system, as controlled by the chartered banks.

Mr. MOXON: Mr. Chairman, in British Columbia it is a fact that the British Columbia Central Credit Union is required to maintain free balances in various branches of the chartered banks throughout the province with regard to the clearance of orders through these various branches.

The CHAIRMAN: And over and above that, have you been called upon to have additional free balances over the past two years?

Mr. GLEN: I am not from the Central of the bank but I have heard from them that they are required to do the same thing as Saskatchewan is required to do.

Mr. TENDLER: I can speak for the Manitoba Co-operative Credit Society and the Ontario Co-operative Credit Society, and I know for sure that they have had to put up these compensating balances before we were approached for them. I am not too sure of the British Columbia situation; however, theirs is a little different in that they carry 70 bank accounts throughout the province of British Columbia in the name of the British Columbia Central whereas in the other three provinces that I know of, we carry our accounts with the main branches of the various chartered banks in Regina, Winnipeg or Toronto.

Mr. LIND: I have a supplementary Mr. Chairman. What rate of interest are you charged on this compensating balance?

Mr. TENDLER: I think I see what you are getting at.

Mr. LIND: Does this not vary a bit?

Mr. TENDLER: Let me clarify this. Let us assume that we have this $5 million line of credit; in order to put the $500,000 compensating balance, we would pay 6

per cent on the $500,000 which we in turn would deposit in there with no return to us. Is this the question you wanted answered?

Mr. LIND: They gave you the $5 million line of credit and $500,000 was set aside as a compensating balance.

Mr. TENDLER: We get the use of $4.5 million maximum.

Mr. LIND: Yes. And what do you pay?

Mr. TENDLER: Six per cent on 5 million; or, let me make it worse: we could borrow $600,000 and get the use of $100,000 and pay the interest on $600,000. The $500,000 would be sitting idle—compensating balance.

Mr. CLERMONT: You are not getting any interest on the $500,000?

Mr. MORE (*Regina City*): But you would not be required to keep $500,000, would you, if you did not set up a $5 million line of credit?

Mr. TENDLER: Oh no, if we did not.

Mr. MORE (*Regina City*): If you set it up and only used $100,000, there is something wrong with your request for credit, surely.

Mr. TENDLER: Not necessarily. May I again refer to my previous comments on the fluctuation in our operations. In Saskatchewan we will see millions of dollars through our office in the next four weeks, but from July to December the drain is entirely the other way, and this may be the peak period for requiring bank credit. And it is arranged on an annual basis.

Mr. MORE (*Regina City*): I realize that, but bank assets are limited too; if they are going to take care of a customer they have to have an understanding.

Mr. TENDLER: We recognize that.

Mr. LEBOE: I think you are going a little far to say $100,000—

Mr. TENDLER: I was using the ridiculous—if you want to use that word —exchange as opposed to the other side of the coin.

(*Translation*)

Mr. CLERMONT: What rate of interest do you charge on your loans to persons who require loans?

(*English*)

Mr. INGRAM: The provincial statutes set a maximum limit of one per cent a month on the unpaid balance; these are personal loans to credit union members by members. This is a true effective rate of interest of 12 per cent per annum.

Mr. CLERMONT: I understand now. I was wondering whether you were obliged to pay 6 per cent to the bank plus a compensating balance. I am sure you are charging more than 6 per cent to your customers. In your brief you mention that if the present ceiling is removed by Bill No. C-222, clause 91(3), it will increase your cost. As a borrower or as a credit union organization, in what manner will it increase your cost?

Mr. MOXON: Mr. Chairman, it would increase the cost of the credit unions because, in the instance of having to borrow money from the chartered banks,

our central credit unions would then have to charge more money to the credit unions in return.

Mr. CLERMONT: Do you think that Parliament should give the privilege to the banks to charge one per cent per month to their customers like you have under provincial jurisdiction?

Mr. INGRAM: Through you, Mr. Chairman, if we continue in that same paragraph you will see that we have suggested that the current 6 per cent ceiling is a rather mythical one anyway.

Mr. CLERMONT: I know.

Mr. INGRAM: What we are really suggesting is: Let us not kid ourselves; there is no ceiling any more to that extent. We are not prepared at this point to suggest that a maximum ceiling be imposed on any financial institution.

Mr. CLERMONT: No doubt you are familiar with Bill No. C-222?

Mr. INGRAM: Yes, sir.

Mr. CLERMONT: I refer to clause 91(3). If Parliament adopted that bill tomorrow—which would not be the case—with a possible ceiling of, say, 7¼ per cent, how would your organization react to such a rate?

Mr. GLEN: I would say that we would be unhappy. I think that we would be looking for other sources of funds that might be obtainable at a lesser rate. This source of funds is mainly from our own members. We only use our borrowing power to take care of fluctuations in demand, and to the extent that we can avoid borrowing I think this is what we would do.

Mr. CLERMONT: What rate of interest are you paying on your savings deposits?

Mr. GLEN: The most common rate where I come from is 4 per cent.

Mr. CLERMONT: And is that an average throughout Canada, or would there be a different rate for different provinces?

Mr. GLEN: There are different rates for different provinces and for different credit unions. The dividend is declared after the end of the business year, when we see what there is to divide. In recent years the amounts across Canada have been generally at a low of 4 per cent and a high of 5 per cent. There are some fluctuations either way. You will find some credit unions in my province paying 3 or 3¼ per cent, depending upon their experience for that year.

(*Translation*)

The CHAIRMAN: We will combine questions with regard to the entry of the Trust companies and the question of loans to consumers and also the matter of disclosure of rates of interest. Do you have any questions on this topic?

(*English*)

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Probably the Chairman or Mr. Lambert will answer this question. Have you ever enquired under what constitutional authority a provincial legislature sets interest rates? I was under the impression that this was reserved for the federal Parliament.

The CHAIRMAN: I will leave that one with Mr. Lambert.

Mr. LAMBERT: I do not know. Whether they put these limits in the general legislation at the request of the credit unions, I have no idea.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you admit it is rather a dubious constitutional point?

Mr. LAMBERT: At first blush it presents somewhat of a paradox.

The CHAIRMAN: I caution Mr. Lambert on his very extreme language.

Are there any other questions on the matter of interest rates, including entry of trust companies into the consumer loans field, disclosure of interest rates and other charges involved in borrowing?

Mr. LAMBERT: On the question of disclosure, how do you arrive at a full disclosure? You were present when I placed my questions to the Federation of Agriculture witness asking how one arrives at a definitive simple annual rate of interest on a demand loan, except on a theoretical one year's indebtedness?

Mr. GLEN: This is the way it is done. My credit union does not make demand loans, so that solves that problem. But you have, as I say, to use a definitive basis on an annual term. We have been in the habit of calculating for the member; we will tell him that the cost of this loan will never exceed 12 per cent per annum, but if he wants to know what it is going to cost him in terms of dollars we calculate this for him, provide him with a table and add in whatever other incidental charges there might have been.

We believe in full disclosure; we are in support of full disclosure, and we have tried to practice this in our relationships with our own members for many years. Although there are times when it is difficult, we can set outer limits on it. As far as we are concerned, we prefer that he know the dollar amount. If I had the say in writing the legislation on disclosure it would be on the basis of dollar cost rather than an interest rate per annum, because my experience has been that the dollar cost is something the individual understands. He does not understand all these terms related to interest rates.

Mr. LAMBERT: It is my own view, too, provided there is a full dollar disclosure, that this is what the person is interested in, and the matter of actual interest rate in figures per annum is somewhat academic.

Mr. GLEN: I agree.

(*Translation*)

The CHAIRMAN: Mr. Chrétien you have indicated that you have a question with regard to the rates of interest?

Mr. CHRÉTIEN: I have a question for one of the members. I would like to know, if throughout the years, there have been any contestations with regard to the validity of credit unions receiving deposits and the granting of loans from these deposits? You are not aware of this?

(English)

The CHAIRMAN: Are you aware of any cases in the courts in which the right of credit unions to receive deposits, to pay them out and so on, have been called in question?

Mr. GLEN: I am not personally aware of it, sir, no.

Mr. TENDLER: There actually is one in Saskatchewan, but it is with respect to loans, I think.

Mr. CHRÉTIEN: What has been the result of that? Is it still before the court?

Mr. TENDLER: It is in the process of being heard.

Mr. CHRÉTIEN: What is the line of argument of those who contest the right?

The CHAIRMAN: Perhaps it would be somewhat unfair to ask these gentlemen.

Mr. TENDLER: I had a board meeting at that time and did not take the opportunity to sit in at the session. I do not know enough of the details to make an intelligent comment.

Mr. MOXON: Mr. Chairman, I know a little bit about it. As I understand it, the credit union sued for the collection of a loan. The member challenged the right ot the credit union because it was his contention that the credit union was performing a banking function which was ultra vires of the provincial government to pass an act permitting it. I believe this is the case before the court. I do not know anything about any of the argument on either side.

Mr. CHRÉTIEN: And you do not know the result of that trial yet?

Mr. MOXON: No. I understand the court has reserved decision.

Mr. LEBOE: Mr. Chairman, there is a subsection (2), "Creation of Multiple Credit" down near the bottom of page 2 of the submission.

The CHAIRMAN: You are referring to the submission to the Minister of Finance on the Porter commission?

Mr. LEBOE: Yes. I will read the statement that was made here regarding the creation of credit in paragraph (2), lines 4 and 5:

> . . . distinct advantage accrues to the banks because of their greater power of multiple-credit creation.

I understood a while ago from the evidence that there was no power of multiple-credit creation as far as the credit unions were concerned. Here you have the phrase "greater power", which indicates that the power of multiple-credit creation does exist in the credit unions.

Mr. WAGAR: Mr. Chairman, as you suggested before, to the extent that a member actually takes a loan and leaves some of it on deposit, the money does, in fact, get back and can be lent out again by the credit union; but the chances are considerably less of the dollar bills lent to a member arriving back in that same credit union. It might arrive in some other credit union, but it is more likely to arrive in a chartered bank.

Mr. LEBOE: Thank you very much.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I notice that in this paragraph you refer to your institutions as banking institutions.

Mr. TENDLER: I think he is playing on the word "other".

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: "Other" banking institutions, particularly Caisse Populaire and credit unions.

Mr. MORE (*Regina City*): You could not use the word "finance" there.

Mr. GLEN: Mr. Cameron, we have since replaced our legal counsel.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then you are no longer a banking institution—

Mr. GLEN: He thinks so, but we do not.

The CHAIRMAN: Could we pass on now to the views of the CUNA International on the clearing system.

Mr. LIND: I have one supplementary question on interest rates. Do you charge this 1 per cent a month at the first of the month, or at the last of the month?

Mr. GLEN: At the last of the month. If a loan is taken out on a particular day, 30 days later we calculate the interest when he pays.

Mr. LIND: You do not calculate the day it is taken out?

Mr. GLEN: No, when he pays. You will have a member take a loan on a particular day and he may be in three or four days later and make a payment on it; at that time an interest calculation is made only for the three or four days.

The CHAIRMAN: We will now move on to the clearing system. I recognize Mr. Lambert first, followed by Mr. Clermont.

Mr. LAMBERT: I have heard comments here and there that there is some difficulty with member credit unions in their handling of items that are sent to them for collection by the chartered banks, and that sometimes it may take up to a month before the credit union will return the item as dishonoured. This creates some friction, I gather, because there is a disregard of the recourse endorsements. What is the standard practice with regard to credit unions in the handling of items that are likely to be dishonoured and returned as non-payable?

Mr. TENDLER: Mr. Chairman, we could have numerous instances of that, and let me relate one or two possibilities. The credit unions as a group in Saskatchewan, provide a negotiable order service, and they have agreed that they will have their items cleared through what we call schedule B or the central clearing system. In other words, they come through the vehicle of the chartered banks to the main branch of those chartered banks in Regina and to our office; they are disbursed and they go back. In the event there are returns, they go back too. There are, throughout Canada, some credit unions which have not agreed to this program. I am thinking of Manitoba and Alberta; I am not sure what the situation is in British Columbia, but I think most of them there are on the central program. They may have an arrangement with the local bank. If some of the orders which are negotiated do not have the proper imprinting on them, the bank that negotiates them in Ontario or Quebec, look at it and say: "We cannot clear this in the normal manner; we will have to send it for collection." Now this is still no reason or no excuse for inefficiencies—and this is what you are getting at—in not either certifying or settling for that item immediately or returning it. I cannot explain whether it is a matter of transportation or whether the treasurer went on holidays, did not have a replacement and closed his door for a week, but these are all possibilities—and I appreciate what you are getting at. In Saskatchewan I do not think this situation should arise.

We have had the odd instance where rather than clearing it through the normal channels, for certain reasons, the bank may want to send that in for collection; and if there is any delay in Saskatchewan, the banks will communicate with our office—we have a personal relationship with the treasurers of these credit unions—and we will be as stiff as we can with these. However, they are autonomous organizations and we have no mandatory powers over them.

Mr. LAMBERT: Thank you.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, in their brief the group asked that the system of compensating balance be changed invoking the Porter Commission recommendations and I think that the Porter Commission suggests that the system of compensation be done through the Bank of Canada. Would this be your opinion?

The CHAIRMAN: Mr. Clermont, what is the French translation of the English expression "clearing house"?

Mr. CLERMONT: Clearing house.

(*English*)

The CHAIRMAN: I think there was some difficulty with the translation of the woods "clearing house". I think we should be in agreement on the term.

Mr. GLEN: Is he asking whether we are in support of the contention that the clearing should be done or handled by the Bank of Canada?

The CHAIRMAN: Yes.

Mr. CLERMONT: Mr. Chairman, I will use the sample which was sent to me by the Royal Bank—and I am not giving publicity to the Royal Bank; the translation for "clearing house" is "chambre de compensation".

(*Translation*)

The CHAIRMAN: I do not question your expression, I think your expression was correct. I think the interpreter gave it another sense and perhaps this gave difficulty to our English speaking witnesses.

(*English*)

Would you care to comment, gentlemen?

Mr. WAGAR: If I understand the question properly it is "Do we agree that the Bank of Canada, as suggested by the Porter Commission, should control the clearance facilities?" If that is the question, our answer to that is "yes".

Mr. CLERMONT: How can credit unions come under that when you have a provincial charter?

Mr. WAGAR: One of the suggestions we have made is that if it seemed that the Bank of Canada should handle the clearing facilities, the Canadian Co-operative Credit Society would be prepared to be registered under the Bank Act so that through it, the clearing facilities can be provided to provincial centrals and the credit union movement.

Mr. CLERMONT: But when the Governor of the Bank of Canada was here as a witness, he was asked if the Bank of Canada had the facilities to look after

clearing house compensation. We were told that the Bank of Canada did not have the facilities for such a system.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But we were not told, Mr. Clermont, that the Bank of Canada could not be vested with such a system.

Mr. CLERMONT: I did not understand that.

Mr. WAGAR: We could show them how it is done.

Mr. CLERMONT: I do not say the Bank of Canada cannot do it. If Parliament decides they should they will have to organize themselves.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Their existing facilities do not do this.

Mr. WAGAR: They have not existing facilities, and I do not think there is any question about that.

Mr. CLERMONT: But would you be willing to register under a federal act?

Mr. WAGAR: We have said that the Canadian Co-Operative Credit Society would be prepared to register in order to have access to this facility, if this is the way it is done.

Mr. CLERMONT: How do you clear your cheques at the present time?

Mr. WAGAR: By the Canadian Co-Operative Credit Society?

Mr. CLERMONT: No. How do you clear your cheques now?

Mr. TENDLER: If I understand the question correctly, you asked how we handle our clearing of the members' negotiable orders and the bank cheques now. Let me again use our example. The credit unions throughout Saskatchewan in their day to day transactions receive many items from their members for deposit account or by way of exchange for cash, and this may include government items, grain tickets, cream tickets or items drawn on the various chartered banks. I can give you more detail in a moment. Very few of those items can be deposited to local banks. The balance must be mailed into their Central—our office—for credit to their account. We in turn segregate them by the various banks into four categories within each bank, and government items separate as to paper, card checks and so forth; they are taken to the various banks and deposited to our credit. As an example, we will use the Toronto-Dominion Bank. In its various branches throughout Canada it has negotiated a number of Saskatchewan credit union negotiable orders. These have been funnelled through the Toronto-Dominion Bank branch systems to the main office of the T.D. in Regina, and they are charged to our account daily. We pick them up, take them to our office, process them, distribute them to the 200 and some odd credit unions, and they go out in the mail to these credit unions. In most of the cases they get to their offices the next day; they are processed, and if there are any returns they follow the reverse process.

Mr. CLERMONT: What charges do you levy?

Mr. TENDLER: For negotiable orders, the items drawn by credit union members, we pay the bank 5 cents each and we in turn recover from the credit unions—in our case it is 5 cents each and in some cases some centrals charge more. On certain bank items that we deposit in the chartered banks, there is no

charge. On other items it is 2½ cents an item, on other items it is the exchange factor of 1/10 of 1 per cent, plus 5 cents an item of the total that go into the category, and on the other items it is 1/16 of 1 per cent minimum.

Mr. CLERMONT: Mr. Chairman, the same paragraph of the brief is against bank charges on out of town cheques.

Mr. TENDLER: I am not sure I understand.

Mr. CLERMONT: The Porter report—

Mr. TENDLER: Well, these are exchange charges which we pass on and on which there is no earnings through the credit union movement—that is, once the currency is paid out from within the credit union movement there is no revenue or no offsetting revenue for the handling of same; and vice versa, there is no revenue. The revenue is all going one way and we in the movement are not getting any of it. We are paying for the items which we receive from the bank and we are paying to deposit bank items.

Mr. CLERMONT: But it seems that you would like the out of town cheques to be cashed without charge.

Mr. TENDLER: Without charge or exchange, whatever you may call it. I think we mentionned we are in agreement with this proposal which was made by the Porter Commission.

The CHAIRMAN: If I could interrupt for a moment, we should decide whether or not we want to try and complete our consideration of this very important and interesting brief now without adjourning, or whether we should come back this evening at 8 o'clock. We may feel that we are on the home stretch and may wish to continue sitting for a period rather than having a session tonight. On the other hand, there are some travel arrangements which you gentlemen have to make and perhaps we could take a moment we see what we want to do. Would you prefer sitting now?

Some hon. MEMBERS: Agreed.

Mr. TENDLER: It does not matter to us.

The CHAIRMAN: I suppose you gentlemen would not mind that too much either. We may be on the home stretch. This is a very important presentation and we want to give it all the time necessary to consider it properly. We will continue sitting. Are there any other questions on the clearing house system?

I would like to clarify one or two points myself. At the moment, with respect to the regulations, charges and limitations involved in the clearing house system, you have no voice whatsoever in the decisions?

Mr. TENDLER: That is right.

The CHAIRMAN: You are just told what you are going to have to put up with?

Mr. TENDLER: We were presented with a schedule of charges, which I referred to as schedule B; this was presented across Canada to the various credit union organizations and these are the charges which will be made.

The CHAIRMAN: You are not represented in any executive which is in charge of managing the clearing system?

Mr. TENDLER: No.

The CHAIRMAN: Would you know to what extent the charges imposed upon you by the chartered banks for clearing represent only the cost of the services rendered, or to what extent they may include a profit in addition to the cost?

Mr. TENDLER: No, Mr. Chairman, we have no way of knowing. We said we would be interested in paying our share of the cost; if it is more that is fine, and if it is less that is fine.

The CHAIRMAN: Have you asked them?

Mr. TENDLER: Not recently.

Mr. INGRAM: The question was certainly asked originally and the chartered banks indicated that this was simply a recovery of their own costs.

The CHAIRMAN: Did you ask them to show you figures?

Mr. INGRAM: Yes, but these were not available.

The CHAIRMAN: Do you mean it was not available in general, or they would not show them to you?

Mr. LENDLER: Well, they were not available.

Mr. INGRAM: They just made this report available.

The CHAIRMAN: To whom?

Mr. INGRAM: Well, to our group, or our delegation, that has met with officials of the Canadian Bankers' Association at that time.

The CHAIRMAN: Have you any reason to believe that these same figures were not available to the bankers as well? Do they have this information?

Mr. INGRAM: I would suspect they had to; otherwise I would find some difficulty in figuring out how they arrived at the cost figures.

The CHAIRMAN: Yes. Now one further point: obviously in this clearing system you handle bank items for the banks, in a sense, but they do not allow you anything for that.

Mr. TENDLER: No, we pay to deposit some of these things.

The CHAIRMAN: You pay the banks for doing them a service.

Mr. TENDLER: Let me use an example. I think many of you know that many items—especially by major clients of the bank—have what they call "crossed at par" a negotiable amount charge at any branch of the such and such bank in Canada. When we deposit these items in Regina and they have gone on to any point outside Regina, or to a branch other than the main branch of that bank in Regina, we pay $2\frac{1}{2}$ cents on each item.

The CHAIRMAN: That is very gracious of the banks—I say that ironically. Now, I notice in your brief you actually make an alternate proposal to having the clearing system operated through the Bank of Canada. You suggest that you be given direct membership in the clearing system through the Canadian Bankers' Association Act; none of the other members of the Committee has, as yet, asked you about this. Perhaps you could comment on what you really have in mind by that.

Mr. TENDLER: We assumed from what we could read in the Porter Commission recommendations, that there was an alternative, either the Bank of

Canada, or—if I may use the word—the co-operative type of clearing system, in which you have paid your portion of the cost for the use you make of it. If this were permissible by registering with the Canadian Bankers' Association Act, and if it was agreeable to all parties, this might be another way of doing the same thing.

Mr. More (*Regina City*): Gentlemen, you referred to schedule "B"; is this a special schedule that is presented to you, or is this the same schedule required of near banks in their clearing?

Mr. Tendler: No, I would have to say it differs; the Caisse Populaires have a different one than we do.

Mr. More (*Regina City*): And trust companies?

Mr. Tendler: This one says: "Clearing privileges, credit unions including Caisse Populaires outside the province of Quebec centralized clearing plan." It does not say anything about trust companies, so I would have to assume that the trust company one—

Mr. More (*Regina City*): Is different.

Mr. Tendler: It could be the same, but the heading here does not say that.

Mr. More (*Regina City*): And you have no access to any knowledge of what they pay?

Mr. Tendler: No.

Mr. More (*Regina City*): Nor the schedule they operate on?

Mr. Tendler: No, not at this point.

Mr. More (*Regina City*): As far as you are concerned, this is an arbitrary schedule that is presented to you—an ultimatum—that you have no choice about.

Mr. Tendler: If we want to use the vehicle, we pay the price. We have seen the Caisse Populaire schedule but not the trust company schedule that you referred to.

Mr. More (*Regina City*): What difference is there?

Mr. Tendler: They got a few concessions that we did not.

Mr. More (*Regina City*): Why?

Mr. Tendler: Primarily because they are dealing only with the provincial bank, is that not it? They carry on deposit with—

Mr. More (*Regina City*): And some are in Quebec.

Mr. Tendler: Yes, there are one or two chartered banks operating in the province of Quebec that we do not have in western Canada. It seems to me that the Caisse Populaire—as I understand it, and I am subject to correction here—carry a fairly substantial deposit with one of the banks and utilize, primarily, the services of that bank; others may clear to it, but I would not want to be involved in the details here.

Mr. More (*Regina City*): You do not have the opportunity then to deal with one bank and obtain a better schedule through doing that?

Mr. Tendler: No.

The CHAIRMAN: Are there any further questions relating to the credit union movement and the clearance system? If not, we will move on to the views of CUNA International on the incorporation of banks. Are there any questions on that? Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, I was wondering if Mr. Ingram could give us some ideas on how the organization thinks the suggested co-operative banking be organized?

Mr. INGRAM: Mr. Chairman, that is a rather difficult question to answer, because the movement, as such, has not really delved into the problems involved in the organization or the incorporation of a co-operative banking system. We are disturbed, however, by the lack of a provision for such a co-operative bank; particularly with respect to the governmental structure.

The CHAIRMAN: What do you mean by that?

Mr. INGRAM: Well, as I interpret Bill No. C-222, and particularly Section 10, or at least one of the sections, it would make it very difficult—if not impossible—for the organization of a chartered bank on other than on a joint stock basis. As a credit union movement, we are very much concerned that the directorships or the directors of such a bank would be credit unions or credit union centrals rather than individuals, as spelled out in this particular bill. If anyone else wants to add any comments to it—

Mr. WAGAR: You have pointed out one section. The other section, which, I believe, is Section 18. Section 10 is the provisional directors Section ans Section 18 deals with the qualifications, if you will, of the directors other than provisional directors. It definitely lays down that the individual must own the share in his own right, and so on. We see no reason why a corporation, or a co-operative, or a credit central, should not be able to hold shares and elect a representative to the board of a co-operative bank. Probably the qualifications of such a director might be that he is an officer or director of a member organization.

When Bob mentioned the governmental structure, I believe he was referring really to the principle of one member, one vote, rather than one share, one vote, and I think that is important to the credit union movement. The other one is that there is no provision—at least I could not find it—for a patronage refund, a patronage refund of loan interest, if you will. The only provision, as I see it, for paying out the surpluses or the net income of such an organization is through dividends on shares; and a co-operative bank might well want to pay patronage refunds. These, I would say, are the three main areas of concern.

There are ways of doing it, I think—and one that has been discussed a little bit—other than putting these provisions in the Bank Act, and that would be to put a provision in the Bank Act that the Governor in Council might establish rules under which a co-operative bank might be incorporated. These rules would be subject to the approval of parliament, and thereby allow for incorporation of a co-operative bank. This would mean that at least you would not have to wait for 10 years for the Bank Act to be amended for such an organization to come into existence.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you heard of the legislation this Committee passed not long ago for the credit unions of Nova

Scotia with regard to the establishment of the mortgage company which, as I recall it, is owned by the various credit unions?

Mr. WAGAR: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The leagues, as I believe they are known—

Mr. WAGAR: Are you referring to the Nova Scotia Credit Union League?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, the Nova Scotia Credit Union League, but I gather that the shareholders were going to be the various credit union organizations in the province. Do you think this might provide some sort of pattern for the type of co-operative banks you are thinking of?

Mr. WAGAR: It could, but I presume that the organization to which you refer is incorporated on a joint stock basis; is that correct?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, it is.

Mr. WAGAR: And one share, one vote?

The CHAIRMAN: Well, Mr. Cameron's point, and I think you should consider it, is that the Nova Scotia—in fact, maritime people—seem to feel they have found a formula for harmonizing the joint stock approach with the credit union approach.

Mr. INGRAM: This is a savings and loan organization interested in the mortgage field as such, not in the broade spectrum of what a co-operative bank might be doing at some time in the future.

The CHAIRMAN: I would say, sir, that Mr. Cameron's point is still valid with respect to the technique of organization and creation procedure.

Mr. WAGAR: I am not saying, Mr. Chairman, or Mr. Cameron, the co-operatives have not been formed on a joint stock basis; but it requires, of course, internal machinery to make it operate as a co-operative. I am not saying there could not be ways and means found of organizing a structure and providing a democratic structure of some kind, but it certainly is a round about way of trying to get a co-operative organized, in my humble opinion.

Mr. GLEN: Because of our background, Mr. Cameron, in co-operative organizations, I think you will understand it is natural on our part to want to build into a corporation of this nature the principles that we believe in, namely, the one member, one vote, rather than the one share, one vote, the principle of the patronage refund; these are the things that we consider to be—if I may say this—our way of life in financial affairs.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But when you have the shareholdings, in effect—we have questioned the people before us on this point —confined to a number of co-operative organizations, your principle of one man, one vote is still valid.

Mr. GLEN: Yes, exactly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then it is merely a legal, technical method of organizing this new institution.

Mr. WAGAR: Right; I think there is one real fly in the ointment though, and that is, the ownership—I believe a minimum was 3,000 shares or $3,000, I do not know which—

An hon. MEMBER: It is $3,000.

Mr. WAGAR: —to qualify as a director, this seems to me to be—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, there would have to be some provision to deal with that.

Mr. WAGAR: I do not have $3,000.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That would eliminate you as a director.

Mr. GLEN: And my credit union, yes.

The CHAIRMAN: Perhaps you should go to the credit union.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): My credit is not that good at the moment.

Mr. GLEN: Do they know you too well there?

The CHAIRMAN: There is another alternative, and that is that there would be nothing to prevent the parliament of Canada from passing a special act incorporating a co-operative bank to which would be applied the provisions of the Bank Act in so far as they are relevant; it would not be necessary to wait 10 years. I just throw that out as a further possibility. If parliament—because of various factors—does not feel it is possible to work out a system for a co-operative bank within the existing scheme, there would be nothing to prevent your organization from coming forward with a proposal for a special act for a co-operative bank.

Mr. GLEN: I just wanted to make a comment and, of course, this is a new approach that we have not thought of—

The CHAIRMAN: This is part of the service of the Finance Committee.

Mr. GLEN: My observation was that if there was provision in the Bank Act, as has been suggested, where the Governor in Council may establish such rules, at least this gives us an entrée into the government to come and sit down and to do this. If there were no other entrée, we could be knocking on doors all over Ottawa and get no one who was willing to sit down with us.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not think there would be any difficulty in finding a member in the House of Commons who would be prepared to introduce a bill for you.

The CHAIRMAN: Certainly we, as members of this Committee, would be most interested in hearing, and most concerned if we found you did not have the access that should be given to a group of your stature by any of the officials of the government. If you should have any problems of this nature, I hope you will bring them to our attention forthwith.

Mr. WAGAR: Mr. Chairman, it is interesting to me, and knowledge new to me, that a bank can be incorporated in Canada without reference to an act respecting banks and banking.

The CHAIRMAN: Parliament, within its constitutional jurisdiction, is supreme.

Mr. WAGAR: Very good.

The CHAIRMAN: If it wanted to call a credit union a bank, or vice versa, it could do so.

Mr. WAGAR: Do they do this?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

The CHAIRMAN: Whatever the merits.

An hon. MEMBER: I think I would argue that, with due respect, sir.

Mr. MORE (*Regina City*): You might find the minister has some grave objections to your members supporting such a move.

The CHAIRMAN: Well, we will have to deal with that when he comes.

Mr. MORE (*Regina City*): With respect to what seems to me the extension of credit unions into the banking field, really into a true bank, as banks now exist, and bearing in mind the restriction the new act is placing on present banks and the size of the empire they might build, would there not be similar thoughts of restrictions on the empire the co-operatives might build in this financial field? What is your reasoning about this? We are going to require banks to divest themselves of some of their present operations, if the present bill is accepted.

Mr. GLEN: Mr. Chairman, might I comment in a sort of perspective, if I may? We have organized—and I speak now of those of us who have been interested in the credit union movement over the past 20 or 30 years—many thousands of credit unions most of which are very, very small in terms of their number of members, in terms of their total assets and in terms of the volume of business they do. Energetic groups will enlarge the services and the membership within the definition of their bond of association, and to that extent they do become relatively large compared to the smaller ones. But to apply a blanket type of restriction or regulation to all credit unions that because they are credit unions they must come under, for instance, the banking law would certainly inhibit the very small groups.

I point out to you that while this is not relevant to Canada, we are very actively engaged in establishing these self-help sort of organizations in other countries of the world, and they would simply never get off the ground if they had to begin by performing in the manner required by a type of legislation that is designed to regulate very large financial institutions. It is the flexibility of the situation that concerns me, personally, and we have many credit unions that are just really nothing more than small loan clubs or small savings and loan clubs where the officers, the chief financial executive or the treasurer, whatever you call them, are serving without pay.

Of course, over the years you begin to build a series of circumstances because of regulation and requirement, and so on, that sooner or later makes it impossible to perform this service. This is not a direct answer to your question but I maintain, sir, that we are not engaged in the business of building an empire. The credit unions we form are individual, autonomous organizations. There are times when we might wish otherwise because of some of the things

they do but they are on their own; they do not chose to associate with the rest of us, and that is their affair. But by and large all of the credit unions feel the need to band together to provide certain services and protections for themselves, but this is not in the interest of creating an empire in the sense that an industrialist or a company looks at its total potential and says, let us go, simply for the sake of getting big for bigness' sake.

We have credit unions in British Columbia that have not changed their financial position in quite a number of years. Quite a number of them have become smaller in terms of membership and assets. They feel they will provide the service the members are prepared to use and if they are not prepared to us it, then, of course, the organization will decline.

Mr. More (*Regina City*): I think it is an indirect answer and I am not going to argue philosophy because that was not my purpose. I am just saying that in the present situation and through the proposals that are placed before us, there are restrictions embedded and they are presumably to provide more competition in the various financial fields.

Mr. Wagar: Mr. Chairman, I would like to make one comment to Mr. More on this. It seems to me that when Mr. More suggests that this is one organization developing an empire, this is where there is some argument, I think. Co-operatives and credit unions are autonomous organizations. The Saskatchewan Co-operative Credit Society is an autonomous organization, as is B.C. central, as is the Ontario Co-operative Credit Society and the Canadian Co-operative Credit Society. They are autonomous organizations and in that sense I am sure it is not the intention of this Committee to recommend that no 25 or 30 organizations can get together and organize a bank.

Mr. More (*Regina City*): I think, perhaps, "empire" might have been the wrong word, Mr. Wagar. That was not the point I was getting at; I was getting, more or less, at the present limits we want to place on the control of any one group in the financial field and how it would apply to your field. It was a theoretical question, perhaps.

Mr. Wagar: I think I agree with you; we agree with your restrictions that no organization should own more than 10 per cent of the shares, of a bank, and so on.

The Chairman: There is just one point here. I gather from what has been said all along here in answer to different members, that your principal objection with regard to a federal activity in the area of credit unions is with respect of being brought into the present or future existing scheme having to do with chartered banks. In other words, in your brief presented to us today and in your submission to the Minister of Finance and the Porter Commission, your concern appears to be, to a large degree, with respect to the possibility that you will be called upon to meet a scheme of regulation and operation that is evolved with regard to our present system of chartered banks. Am I right in that?

Mr. Glen: This is generally the case since it exhibits, I think, a rather natural fear on our part.

The Chairman: Yes.

Mr. Glen: We are not structured for it.

The CHAIRMAN: No. I would, therefore, also gather that if proposals were made for a quite separate scheme specifically tailored to the concept and philosophy of the credit union movement, but under federal jurisdiction, you might look upon it differently?

Mr. GLEN: It is an area in which we are tremendously interested.

The CHAIRMAN: I have one final point I want to ask you about. Have you had a chance to look at the government's proposals on deposit insurance and, if so, can you tell us whether ot not you feel, if credit unions were eligible, that this scheme would be helpful to them?

Mr. GLEN: We have not had a chance to really look at the government's proposal because they have just been introduced and we do not know too much about it.

The CHAIRMAN: We are all in the same boat.

Mr. INGRAM: In general, we kind of unofficially discussed the whole question of deposit insurance but not the government's proposals. I think, as we mentioned earlier, the movement as such has already gone on record as stating that we have our own built in safeguards through our provincial stabilization funds and mutual aid funds—whatever the term is called—and this is tantamount, we feel, to what is now being proposed as deposit insurance. We have already taken this protective measure to build in this safeguard for depositors, shareholders and the members of credit unions, by developing this stabilization plan.

The CHAIRMAN: Do you have any further comments, Mr. Glen?

Mr. GLEN: I really was just going to echo Mr. Ingram. We are concerned with the protection of the funds of our members and we think we have made a start in this field but it is by no means the end of the trail. We intend to continue to improve it. If there are things in the federal legislative proposal which do not presently apply to the credit unions, themselves, I think we would take a long look at incorporating those in our own plan. We feel we can run a pretty fair shop in this respect.

Mr. MORE (*Regina City*): Your position is similar to that of chartered banks. They do not need it, they say.

Mr. GLEN: I will not speak for the chartered banks.

Mr. MORE (*Regina City*): You take the position that you are dealing with this problem and that you do not need this federal umbrella?

Mr. HAIDASZ: Mr. Chairman, is a local credit union protected if one of the loans given out goes sour? How is this arranged?

Mr. MOXON: Each credit union in B.C. has to set up a proportion of its net earnings each year into a reserve fund to cover any possible loans that are uncollectible. This is a special reserve.

Mr. GLEN: We have to put 20 per cent of our net earnings aside; the ceiling is that when this reserve equals 5 per cent of the loans outstanding, then we do not necessarily have to increase it. At the end of each year we must value all our loans on a delinquency basis, if you want to put it that way. For example, if a payment has not been received for three months on the loan, then we must set aside 10 per cent of the amount of that loan in a special reserve, and so on, if the

loan is 12 months in arrears and we are still trying to collect, we must reserve the whole 100 per cent.

Mr. HAIDASZ: Are your figures on the amounts of your reserve funds available to the provincial authorities?

Mr. GLEN: Yes, it is reported on our financial statements.

Mr. INGRAM: But these are not the stabilization fund reserves we are talking about.

Mr. GLEN: No, that is a separate reserve, again.

The CHAIRMAN: Are there any further questions or comments? If not, I think, that on behalf of all of us, I would like to thank the witnesses who appeared before us today for their most useful and interesting presentation. This is an area we have looked forward to exploring for some weeks and I think it has been very helpful in our deliberations.

Mr. GLEN: Mr. Chairman, may I thank you and the members of the Committee for allowing us to appear. I must confess that when I sat on this chair I was as nervous as a cow with a buck toothed calf, but thanks to your Chairmanship and the members of the Committee, we felt quite at home with you here. Thank you, again.

The CHAIRMAN: The meeting will now adjourn until next Thursday at 11 o'clock.

APPENDIX II

SUBMISSION

by the

CANADIAN FEDERATION OF AGRICULTURE

to the

STANDING COMMITTEE ON FINANCE, TRADE AND ECONOMIC AFFAIRS

of the

HOUSE OF COMMONS

Mr. Chairman and Committee Members:

This opportunity for the Canadian Federation of Agriculture to make representations to your committee is very much appreciated. It will be a matter of satisfaction to you that this submission will in truth be a very short one. It divides itself into two parts:

(1) Recommendations with respect to the Section 88(5) Provisions for Priority of Rights to Farmers in Case of Bankruptcy.

(2) Some general comments on interest rates, and upon provisions for their disclosure.

Section 88(5):

Section 88(5) provides that in case of bankruptcy growers of perishable products shall have priority over the banks as creditors (after the wages of employees) where security was taken by the bank under this section.

The Canadian Federation of Agriculture, of course, welcomes very much the direction of policy being adopted with respect to farmers in this clause. It does, however, feel that the provisions made are inadequate in some respects and would recommend strongly that changes be made to rectify them. The first problem concerns the agricultural products covered. It is quite clear that livestock products and livestock would not be covered. From some of the discussion in the proceedings of the committee on October 27th, it would appear that there is some impression that no requests have been made for a broader coverage by farmers. This is not so. In its representations to the Standing Committee on Banking and Commerce of the House of Commons in 1963, in connection with Bill C-5 which was introduced by Mr. Whelan, it was quite clear from the representations made, and the examples of bankruptcies given, that it was the desire of farmers in Canada that additional protection in case of bankruptcy should be given to producers of livestock, poultry and milk as well as to growers of crops. We particularly cited the case of the Visco Poultry Packing (1957) Limited of British Columbia, and the case of Les Abbatoirs Richelieu Inc., as well as a number of examples of bankruptcies of canneries.

We do not really see any valid reason why this protection should be limited to growers of perishable crops and not extended to producers of livestock,

poultry and livestock and poultry products, and also to growers of crops that might not be designated as perishable. If there has been an opinion that the limitation was acceptable because nobody else was interested in this protection, we would hasten to correct this misconception.

The second reservation that we have about this section is the provision that the protection shall apply only to deliveries of products made during the three month period preceding the making of a receiving order on assignment under the Bankruptcy Act. While it is true that in the case of wages, the failure to make payment over a three month period would quite surely reflect a very serious state of affairs to which the wage earner by that time would be alerted, the picture is not so simple with respect to farmers. In their case payment can be delayed for a considerable period, and often the reasons given for such delay may seem quite plausible to the individual farmer. It is not impossible that some type of contractual arrangements would involve delays in payment for the working out of the details of the contract.

What we are suggesting is that a longer period be provided in the case of the producer of agricultural products, to take account of these clear differences in the situation of the wage earner and of the farmer.

Our third reservation with respect to this section relates to the limitation of $5,000. as the maximum amount that may represent a priority claim to any one producer. It must be recognized that $5,000. worth of product represents, for the farmer, no protection to his net income position at all if he should happen, as may well be the case, to have delivered considerably more than this amount. The majority of what the farmer receives for his product he must pay out again as expense, and in this day and age $5,000. of product by no means represents an adequate level of production if a man is trying to make a living from that production. Admittedly, some products, such as milk, amy be produced and marketed with regularity over the various seasons but, for crops particularly, and for some livestock, deliveries representing a whole year's work, or perhaps a half year's work, may easily be made within a relatively short period.

We therefore strongly recommend that this $5,000. limit be increased substantially—at least to $10,000. and to something more than this—unless there is some very cogent reason why this should not be done.

The final reservation we have about this section is that the protection to producers is limited to claims for money owing by a manufacturer. We do not know precisely what the definition of a manufacturer is, but we do know that the bank may lend money under this section not only to manufacturers but to wholesale purchasers or shippers or dealers in products of agriculture. We would very strongly recommend that the provisions of Section 88(5) be extended to include all such classes of persons. We do not see why this should not be so.

We have not in this section attempted to review all the arguments why a priority of claim should be provided for under Section 88. We take it that the principle is accepted. This we very much appreciate and we will not take the time of the committee with reviewing arguments that most members will have heard before, and with which they have signified their agreement.

We would make only one other observation, although it is not perhaps directly relevant to the bill which you are now considering. This is that the provisions of the Bankruptcy Act also need to be amended to give similar

priority of creditors' rates, after those of labour, to farmers who have delivered agricultural products to the bankrupt farm. It is clear that adequate protection in all cases of bankruptcy may not be provided by the provisions of Section 88.

It should be kept in mind that there is a real likelihood that the extended authority to the banks to take security of property on loans, which is proposed in the bill before you, will make it possible for banks to avoid the use of Section 88 if they wish to do so, and nullify the protection to the farmer that Section 88 provides. This makes it all the more important that amendments be made also to the Bankruptcy Act to give priority position to farmer creditors at as early a date as possible.

Interest Rates:

The Canadian Federation of Agriculture, of course, recognizes that the Bank Act is a very important piece of legislation for the economy and the people of this country. It is also in an area of subject matter that is highly technical and difficult and an organization such as ours is not inclined to make strong representations on the various aspects of the legislation unless it has a very specific and well defined position to take. We therefore have no further recommandations for amendments to the bill, except with reference to the true interest rate disclosure, a matter on which we will touch later.

It would be fair to say, however, that the Canadian Federation of Agriculture views with definite regret the likelihood that the interest rate ceiling of 6 per cent on bank loans will be abandoned. It is glad to see that some limitation remains on the maximum rate of interest that may be charged, pending such time as a reduction in interest rates in the market signals clearly that high interest rates have not become a permanent feature of the Canadian monetary scene.

In not actively opposing, now and in the recent past, modification of the interest rate ceiling provisions of the Bank Act, the Federation of Agriculture has been frankly in a quandary. It does not like the rising level of interest rates that is a feature of our economy at the present time and believes it should be a definite goal of national policy that such rates should not become a permanent feature of our economic life. At the same time, without being experts in the matter, we are aware that the issues here are complex and that it is by no means self evident that a rigid adherence to the present interest rates ceiling on bank loans is in the best interests of the economy for the consumers of credit in this country including the farmer. We are therefore refraining from opposing the present amendments regarding interest rates, and sincerely hope that the wise course is being followed.

Having said this, however, we would wish to emphasize that we strongly believe that it is very much in the interests not only of the farmers but also of the economy and the consumer of food products, that the cost of agricultural credit should be kept at reasonable levels, and its availability ensured. We continue to be faced in Canada with a rapidly changing agricultural technology, and a rapid structural adjustment in agriculture, that involves, for the farmer, continuing new investment of capital. At the same time returns to agricultural production remain at the best moderate and more typically low.

Particularly in the face of the prospect of rising world food needs, it is very much in the interests of the people of this country that all necessary steps be taken to ensure that the process of agricultural adjustment and productivity improvement not be hindered by credit difficulties. The case to maintain agricultural credit charges at moderate levels, through government policy, is recognized in practice in Canada in the Farm Credit Corporation, Farm Improvement Loans Policy, and in special policies on a number of provinces. The principle of ensuring the availability of agricultural credit by government action, and of keeping down the cost of such credit, should be adhered to, and it may well be, especially in the fields of intermediate and short term credit, that new and bolder policies are needed. All this, however, though closely related to your present concerns, is not the direct business of this committee and we will leave the matter at that.

The other, and final subject on which we want to touch, is that of interest charges disclosure. We understand that it is the intention that an amendment be introduced to the present bill providing for the clear disclosure, in the case of all bank loans, of the finance charges expressed in terms of a simple annual rate of interest. The Canadian Federation of Agriculture, of course, welcomes this policy intention, but it would like to make it clear that inclusion of such a provision in the Bank Act does not in our view dispose of the need for legislative action in this field. Finance charges disclosure legislation, applicable to all transactions involving the extension of credit, is needed and should be introduced at the earliest possible date.

January 6, 1967.

APPENDIX JJ

SUBMISSION

of

CUNA International Inc.

On Bill C-222, An Act Respecting Banks and Banking

Recently, representatives of the credit union and caisse populaire movements in Canada met to discuss the contents of Bill C-222, an Act respecting Banks and Banking, introduced in the House of Commons July 7, 1966.

Although the proposed bill does not specifically mention credit unions as such, there are certain proposals of deep concern to the movement, which we would like to comment on, and respectfully submit to the Committee for it's consideration.

When the former Minister of Finance, Mr. W. Gordon, introduced a similar bill in 1965, we were fortunate enough to appear before him with a brief, outlining our position and reaction to certain aspects of the Report of the Royal Commission on Banking and Finance. No doubt the Committee is aware of the contents of that particular brief but we are taking the liberty of enclosing an additional copy for your convenience.

In essence, the credit union movement at that time concluded as follows:

(1) The inclusion of credit union and caisse centrals under the Bank Act, as proposed by the Commission, would be impractical and inequitable.

(2) Equitable clearing facilities should be provided.

(3) The Cooperative Credit Associations Act should be continued and its legislation liberalized.

(4) Provincial jurisdiction should be safeguarded.

After thorough analysis of Bill C-222, and your comments relative to it, we would make the following observations:

First of all, we compliment the government on it's wisdom in not including credit union and caisse populaire centrals under the Bank Act, an impractical and inequitable recommendation of the Porter Commission.

We are not opposed to the proposal to adjust and eventually lift the interest rate ceiling currently imposed on chartered banks, although such an amendment will unquestionably result in higher costs for credit unions and caisses populaires. We are of the opinion that the current ceiling is a somewhat mythical one, and one which in fact has no substance whatever. Through a system of discounts, service charges, compensating balances, etc. the effective rate charged in many instances is substantially higher than the legal 6 per cent rate.

The credit union movement, however, is very strongly in favor of legislation which would make it mandatory for all lenders, including the chartered banks, to disclose fully and publicly, all charges incidental to the making of loans, both in terms of total dollars, and expressed as a percentum per annum. Similar

legislation has been enacted in the Province of Nova Scotia, and we firmly believe that the Canadian public has an inherent right to "shop" intelligently for credit in the same way as they shop for other merchandise.

Similarly, we have no objection to the desire of certain trust companies to enter the consumer loan field. Any change or improvement in the overall financial system which, through flexibility, competition and better service, will be in the best interests of the Canadian public, is highly desirable. Similar disclosure legislation should of course also apply to those companies as well.

On the other hand, we are disappointed that the bill does not contain any provisions for improving the clearing system. The Porter Report strongly advocated removal of the banks' monopoly of the system, and statutory prohibition on charges for negotiation of out-of-town cheques. We heartily concur with this recommendation.

If all financial institutions are to form part of a "more competitive and flexible" financial system on a sound and equitable basis, then it is logical to expect that these institutions should be granted access to direct membership in the clearing system through the Canadian Bankers' Association Act, rather than the current practice of having to obtain this service directly from the chartered banks, subject to regulations, charges and limitations imposed by the banks themselves.

Likewise, we are disappointed that the bill does not make any provision for the incorporation of banks on other than a joint stock basis. Although the movement has no plans for formation of any type of cooperative bank at the present time, it is not outside the realm of possibility before the next revision of the Bank Act is due, and we are of the opinion that such a provision should be readily available.

The credit unions and caisses populaires in Canada now serve more than 4.3 million members, over 21 per cent of the total Canadian population, and have accumulated nearly 2½ billion dollars of savings. They serve their members as non-profit service organizations, and play a vital and essential role in the economy and growth of Canada as a whole.

CUNA International, Inc.
Toronto, Ontario

October 1966

SUBMISSION

TO THE MINISTER OF FINANCE

ON THE REPORT OF THE ROYAL COMMISSION ON BANKING AND FINANCE

The Report of the Royal Commission on Banking and Finance contains some recommendations of particular interest and concern to the credit union movement. While we appreciate the efforts of the Commission to protect the interests of the credit union movement, we believe the implementation of certain of its recommendations could have a serious effect on the operations of our credit unions, caisses populaires and their centrals. Since this was obviously not the Commission's intention—as the final paragraph of Chapter IX makes clear—we offer these comments on the Report's recommendations, and the problems they could create.

The Commission recommended that credit union and caisse populaire centrals should be related to the banking system, specifying

(1) that all credit unions and caisses should be required—preferably by provincial law—to be members of a central;

(2) that all centrals be required to incorporate or register under the Bank Act; and

(3) that centrals be required to maintain deposits with the Bank of Canada on the basis of the consolidated statements of their member credit unions or caisses.

We believe compulsory membership might undermine the constitutional validity of the provincially-incorporated credit unions and caisses. Compulsory membership would neither alter the character of credit unions and caisses as separate legal and financial entities, nor empower the centrals to compel their member credit unions and caisses to maintain deposits with them.

This is contrary to the whole concept of autonomous local organization pursuant to which credit unions and caisses have developed, and we question whether it is practical to implement recommendations which are dependent upon the agreement of ten provinces.

Were registration or reincorporation of centrals under the Bank Act required, our minority position vis-à-vis the chartered banks might enforce upon us conformity with concepts and practices that will not take into account the distinctive philosophy and techniques of the credit union movement which distinguish it from profit-oriented institutions. For this reason, it would be difficult to make provision in the Bank Act (as proposed by the Commission) to assure continuance of the co-operative type of structure and control characteristic of credit unions and their centrals.

We believe the Commission overlooked some factors with respect to the advantageous position of the chartered banks in their approach to the regulation of banking.

(1) Chartered banks have the considerable advantage of acting as bankers for governments. This advantage tends to compensate the chartered banks for loss of earnings on interest-free deposits with the Bank of Canada.

(2) While bank-deposit expansion causes an outflow of funds to "other institutions in proportion to their success...in attracting holders of their liabilities" (p. 111, col. 1), a distinct advantage accrues to the banks because of their greater power of multiple-credit creation. The Canadian banking system is composed of a small number of large banks, the majority of which operate a large branch system throughout the country. Other banking institutions, particularly the caisses and credit unions, are minute in comparison with these banks. In this situation there is a significant probability that any bank borrower and some of his payees will be customers of the same bank. To the extent that this occurs, the loss of cash by a bank making loans is less than the volume of its loans, and multiple-credit creation becomes possible. Little or no possibility for multiple-credit creation exists for the caisses and credit unions because of their small size and the nature of their membership. We do not claim that multiple-credit creation by individual banks takes place on a large scale. However, we do claim that its existence is significant and gives the individual banks an advantage over the caisses and credit unions because it enables them to create a somewhat larger volume of income-earning loans for each dollar of new cash deposits received by them.

In support of this contention we have in hand an economic analysis prepared by Professor Milton F. Bauer of the University of Alberta. We would be pleased to submit this document on request.

(3) Centrals were established not only to preserve the liquidity of the locals (as emphasized by the Commission) but also to help the locals meet periods of peak member demands for loans. This is more markedly true among credit unions than caisses. The Report states that centrals "in view of their position as specialized banks to the co-operative movement...should be limited to issuing liabilities to credit unions, other co-operatives and public bodies specified in the legislation." (p. 170)

If the Commission meant centrals should take deposits and share capital from members only, the movement would certainly agree, as this is one of the fundamental tenets of all credit union legislation in Canada.

If, however, the Commission intended the phrase "issuing liabilities" to extend to borrowed money, we would strenuously object. This interpretation would thwart credit union development and cripple present operations. There was clear evidence before the Commission that central credit unions do borrow from banks and from the money market to maximize the pooling of their own funds, and should be at liberty to borrow from any source.

We submit there is no reason given elsewhere in the Report for such a restriction of the powers of centrals, and no such restriction is proposed with regard to other institutions.

The Commission's proposal that every central should hold on deposit with the Bank of Canada up to 8 per cent of the liabilities of its members to their respective members, rather than 8 per cent of its own liabilities, is manifestly unfair in relation to its proposals for other banking institutions. The commission does not propose any of these should hold reserves in the Bank of Canada with respect to the liabilities of their customers—only with respect to their own liabilities.

It would be intolerable to compel centrals to provide cash reserves against the liabilities of their members when they have no control over the volume of deposits these autonomous organizations make with them.

(5) This unfair treatment is magnified by the Commission's concept of true notice deposits. The Commission recognized that from a legal point of view all shares and deposits of credit unions and caisses are subject to legal restrictions as to notice, but observed that such notice is not in fact implemented except in emergencies. It seemingly regarded the situation from an economist's point of view: if the depositor feels he can get his money on demand, his deposit is equivalent to near money.

By this measuring rod, the Commission treats both shares and deposits of credit unions and caisses as demand deposits requiring an 8 per cent deposit on the aggregate amount with the Bank of Canada.

The Commission notes (p. 160) that shares of caisses turn over only once in 15 years and deposits 2½ times per year. Practically all the caisses' liabilities to members are deposits, and are chequeable, but obviously a substantial part of these deposits is not so used. Only 12 per cent of the liabilities of credit unions are in the form of deposits, which turn over 15 to 40 times a year; the balance is in shares, which turn over only once every two years. Shares, the Commission notes, "are not generally used by members as a close substitute for chequing accounts." (p. 160)

By comparison, chartered bank savings accounts turn over 1½ times a year, and current accounts 68 times a year. (p. 117)

Recognition should be given to the fact that credit unions and caisses serve people who are almost all workers and primary producers in the low and middle income groups, and their credit union share and caisse deposits represent mostly long-term savings. While members hope to save this money, it must be readily available if emergencies arise.

We further believe the Commission misunderstood some of the realities of credit union organization.

(1) The Commission recognized that credit unions and caisses are creatures of provincial legislatures, and recommended that those governments should take full responsibility for their soundness. The Commission nevertheless has sought to add to the liquidity of credit unions and caisses by imposing unusual obligations on centrals. These recommendations in our opinion would render centrals impotent to carry out their functions even as a source of liquidity to locals.

Provisions for the liquidity of credit unions and caisses differ widely in every province. The substantial difference in the caisses populaires in Quebec is pointed out in the Report on page 159:

> Moreover, only one-half of their funds is invested in loans to members and most of these are conventional residential mortgages. The average term of these loans is thus a good deal longer than those of credit unions, a high proportion of which are paid off within a year or two. The rapid repayment of their loans provides credit unions with a steady inflow of cash which contributes to their aggregate liquidity, while the caisses with longer-term loans and a somewhat more conservative tradition lend less to members and carry much larger and more liquid security portfolios, either directly or through their centrals.

Cash holdings of credit unions are described on page 393 as "undesirably low", a statement that does not take into consideration the cash flow of credit unions as a contribution to liquidity. However, the Report notes on page 394,

> The cash which institutions are required to hold (with the Bank of Canada) will enable them to meet moderate daily swings in settlements within the averaging period, but will not contribute beyond this to the liquidity of their assets.

Obviously, a locked-in deposit with the Bank of Canada will do little to provide additional cash liquidity for credit unions. Supplying cash for such a deposit and providing additional cash liquidity would be a heavy and unfair burden for the movement.

(2) With respect to taxation of reserves, we submit that the Commission did not take full cognizance of the dissimilarity between profit-oriented institutions and the nonprofit-oriented credit unions and caisses. The operations of credit unions and caisses are not intended to produce profit to the corporate body. Shares are constantly redeemed on the basis of the amount paid up thereon; they are not traded on the market, and therefore can have no increase in value by reason of reserves of the credit union. The reserves which are retained are only those which legislation and experience require to be kept to assure that the exact amount of money which the member has contributed to the pool of funds may at any time be returned to him. No member can reasonably anticipate that he will receive a gain on his investment. In some provinces, the legislation clearly prevents any gain to the members even on liquidation.

(3) Having regard to the wide acceptance of orders drawn on a number of different types of financial institutions, we believe it to be in the public interest that clearing facilities on a nonprofit basis should be made available to all such institutions by suitable statutory provision to assure equitable treatment.

Certain centrals already come under the Co-operative Credit Associations Act on a voluntary basis. Appropriate amendments to that act are desirable to bring it in line with legislation governing other financial institutions and to facilitate interchanging of funds between provinces. This would not infringe on the concept that credit unions, caisses and centrals should be voluntary organizations subject to local autonomy under provincial jurisdiction.

The validity of credit union legislation by the provinces rests on the double aspect theory of law. We strongly urge that any definition of banking—expressed or implied—in the Bank Act should be carefully framed so as not to undermine the constitutional validity of provincial credit union statutes.

For the reasons stated above, we respectfully submit:

(1) The inclusion of credit union and caisse centrals under the Bank Act, as proposed by the Commission, would be impractical and inequitable.

(2) Equitable clearing facilities should be provided.

(3) The Co-operative Credit Associations Act should be continued and the legislation liberalized.

(4) Provincial jurisdiction should be safeguarded.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 37

THURSDAY, JANUARY 19, 1967

Respecting

BILL S-25

An Act to incorporate The North West Life Assurance Company of Canada.

WITNESSES:

Mr. George Perley-Robertson, Q.C., Parliamentary Agent; Messrs. Peter Ropchan and Arthur W. Putz, North West Life Assurance Company, Vancouver, British Columbia; Mr. R. Humphrys, Superintendent of Insurance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25560—1

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STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,	Comtois,	Leboe,
Basford,	Flemming,	Lind,
Cameron(*Nanaimo-Cowichan-The Islands*),	Fulton,	McLean (*Charlotte*),
Cashin,	Gilbert,	Monteith,
Chrétien,	Irvine,	More (*Regina City*),
Clermont,	Lambert,	Munro,
Coates,	Lamontagne,	Valade,
	Latulippe,	Wahn—(25).

Hugh R. Stewart,
Acting Clerk of the Committee.

ORDER OF REFERENCE

THURSDAY, December 8, 1966.

Ordered,—That Bill S-25, An Act to incorporate The North West Life Assurance Company of Canada, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25560—1½

REPORT TO THE HOUSE

JANUARY 27, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

EIGHTEENTH REPORT

Your Committee has considered Bill S-25, An Act to incorporate The North West Life Assurance Company of Canada, and has agreed to report it without amendment.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, January 19, 1967.
(75)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:05 a.m. this day. The Chairman, Mr. Gray, presided.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Gray, Irvine, Laflamme, Lambert, Latulippe, Leboe, Monteith, More (*Regina City*) and Mr. Wahn—(13).

In attendance: Messrs. George Perley-Robertson, Q.C. and A. deLobe Panet, Parliamentary Agents; Messrs. Peter Ropchan and Arthur W. Putz, North West Life Assurance Company, Vancouver, British Columbia; and Mr. R. Humphrys, Superintendent of Insurance.

The Committee proceeded to consideration of Bill S-25, An Act to incorporate The North West Life Assurance Company of Canada.

On the preamble

Mr. Basford, sponsor of the Bill, introduced the Parliamentary Agents and the Witnesses. Mr. Perley-Robertson explained the purpose of the Bill. Mr. Humphrys answered questions concerning the form of the bill and the proposed Company. He assured the Committee that the requirements of his Department had been met.

Messrs. Ropchan, Putz, Perley-Robertson and Humphrys were questioned and the Preamble was carried.

Clauses 1 to 9 inclusive and the Title were severally carried.

The Bill was carried without amendment.

Ordered,—That the Chairman report the Bill without amendment.

At 11:55 a.m. the Committee adjourned until Tuesday, January 24th at 11:00 a.m.

Hugh R. Stewart,
Acting Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, January 19, 1967.

The CHAIRMAN: Gentlemen, I see a quorum. The meeting is called to order. Our business this morning is to consider Bill S-25, an act to incorporate the North West Life Assurance Company of Canada. I should say at the outset that I understand the supporters of the government have been called to a special caucus at noon and if we do not finish our considerations by that time—I am not saying we should—we will have to adjourn our meeting and continue this afternoon unless, by some chance, we have a quorum made up of members of the other group. If that is the case, I will invite one of the other members to take the Chair.

Now, we first have with us this morning Mr. Ron Basford, the sponsor of this bill, together with the parliamentary agent for the bill and some of the officials of the company in question. I would ask Mr. Basford to introduce those present in the usual way.

Mr. BASFORD: Mr. Chairman and gentlemen, I would like to introduce the parliamentary agent for this company, Mr. George Perley-Robertson of Ottawa, who I am sure is familiar to all of you. After introducing him I would like to be excused. This morning I am chairman of the meeting of the prices committee. It is my day to be chairman and I have excused myself from that committee. However, I should return and I would appreciate the indulgence of this committee to be allowed to leave the proceedings in Mr. Perley-Robertson's hands and go back to the prices committee.

The CHAIRMAN: Yes. Thank you very much, Mr. Basford. You have performed the customary function. I do not know what else an agent has to do on these occasions. If there is anything else we will call you back. Now, Mr. Perley-Robertson, you do not have to stand, you may remain seated, and we will now ask you to present the details of this bill.

Mr. George PERLEY-ROBERTSON, Q.C. (*Parliamentary Agent, Ottawa*): Bill S-25 is a bill to incorporate The North West Life Assurance Company of Canada, the French name of the company being La Compagnie d'Assurance Vie North West du Canada. The purpose of the new company will be to acquire the rights and properties of North West Life Assurance Company, which was incorporated by private act in British Columbia in 1956. That company in turn acquired the business of North West Mutual Life Assurance Company, which was incorporated in British Columbia in 1951. The life insurance of the provincial company in force at the end of 1966 was $66,500,000. It carries on business in British Columbia and under licence in Alberta. The provincial company has 58 fulltime agents. It is principally in the life insurance business, but it also handles some personal accident and sickness insurance. The provincial company has 300,145 issued shares and 660 shareholders. The president of the provincial company, Mr.

Peter Ropchan, is present as well as Mr. Arthur Putz, the secretary-treasurer. The Superintendent of Insurance is also here.

The CHAIRMAN: He is not working for the company?

Mr. PERLEY-ROBERTSON: No, but if you are going to ask him questions.

The CHAIRMAN: Oh, yes, in due course.

Mr. PERLEY-ROBERTSON: But the two officers of the company are here to answer any questions.

The CHAIRMAN: Thank you.

Mr. MONTEITH: I was just wondering if Mr. Perley-Robertson could give us again the amount of stock outstanding. You mentioned 660 shareholders.

Mr. PERLEY-ROBERTSON: Three hundred thousand, one hundred and forty-five shares.

Mr. CLERMONT: And the number of shareholders?

Mr. PERLEY-ROBERTSON: Six hundred and sixty.

Mr. CLERMONT: That is the provincial company?

Mr. PERLEY-ROBERTSON: That is the provincial company that this company will be acquiring.

The CHAIRMAN: Now, Mr. Humphrys, if you would advance to the witness table. What comments do you have for us about this proposed application?

Mr. R. HUMPHRYS (*Superintendent of Insurance*): Mr. Chairman and gentlemen, this bill is in a form similar to that which has been before Parliament and this committee on many occasions in the past where a provincial company desires to achieve the status of a federally-incorporated company. The procedure has been, as in this case, to incorporate a new company by special act and to grant power to that new company under the act to take over the assets and liabilities and business of the provincial company. The bill, therefore, is in the usual form for that purpose.

I call your attention to one or two points in it. This new company will have an authorized capital of $1 million and the bill provides that the new federal company is not to commence business until $600,000 of the capital stock has been subscribed and paid. This is approximately the amount of capital stock that is subscribed and paid in the provincial company, so in the take-over of the provincial company by the federal company the capitalization will be up to that level.

You may think it odd when you look at clause 4, which reads:

> The amount to be subscribed and fully paid before the provisional directors may call a general meeting of the shareholders shall be two thousand two hundred and fifty dollars.

However, that is only a technical point. It means that the provisional directors, by subscribing for $250 worth of stock each in the new federal company, can then organize the federal company sufficiently to enter into an agreement with the provincial company, but no business will start until the amalgamation has been completed and an adequate capital is in hand.

This act cannot come into force until notice has been given by the Superintendent of Insurance in the Canada *Gazette*, and such notice is not given until we are satisfied that the act has been placed before the shareholders of the provincial company and until we are satisfied that the provincial company will cease business on the implementation of the agreement.

We have had examiners look into the company's books and records. The company has recently been expanding fairly rapidly. It is still in a position where it is suffering losses year by year, but we believe the trend is in the right direction and with the resources now in the company, provided it follows a careful path as far as the future is concerned, it has enough capital and surplus resources to permit it to develop its business and proceed to a profit-making position without danger of loss to the policyholders.

The CHAIRMAN: Now, Mr. Humphrys, are you able to tell us if the group that wishes this incorporation have met all the requirements of your department for that purpose?

Mr. HUMPHRYS: Yes, Mr. Chairman.

The CHAIRMAN: Can you tell us whether or not you have found anything adverse about the background and/or character of either the proposed incorporators or any of the others who are connected with the the management or control of this company?

Mr. HUMPHRYS: We have investigated such matters carefully, Mr. Chairman, and we have no reason to be critical of any of the persons who are involved in this incorporation. We believe their background, as we have determined it, is not objectionable in any respect.

The CHAIRMAN: Yes, Mr. Lambert?

Mr. LAMBERT: I have a supplementary in connection with the persons immediately following. Could you tell us whether the persons proposed as the provisional directors are all directors of the provincially-incorporated company or is there a branching out of the personnel?

Mr. HUMPHRYS: They are all directors of the existing company.

Mr. LAMBERT: They are all directors?

Mr. HUMPHRYS: Yes.

The CHAIRMAN: We are now, of course, on the preamble and we will begin our questioning.

(*Translation*)

First of all I give the floor to Mr. Clermont, followed by Mr. Wahn.

(*English*)

Mr. CLERMONT: What do you mean by the preamble, Mr. Chairman?

The CHAIRMAN: I was just saying that as a matter of form. Ordinarily our questioning—

Mr. CLERMONT: May we ask questions generally?

The CHAIRMAN: Oh yes.

Mr. CLERMONT: Mr. Chairman, I will ask my question in French.

(*Translation*)

I see that one of the directors is Mr. E. M. Gunderson. Has Mr. Gunderson any relationship with Mr. Gunderson who was provisional director of the group which came here to request a charter for the Bank of British Columbia?

(*English*)

Mr. PERLEY-ROBERTSON: He is one and the same person.

An hon. MEMBER: He has Mr. Basford on his side this time.

The CHAIRMAN: You could say, therefore, that those interested in this group might be called more eclectic than some of the others.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, what is the capital of the Provincial company?

(*English*)

Mr. Peter ROPCHAN (*President, North West Life Assurance Co.*): The authorized capital is 500,000 shares divided into $2 par value, which is $1 million in capital.

(*Translation*)

Mr. CLERMONT: What are the assets and liabilities of the Provincial company and the net assets?

(*English*)

Mr. ROPCHAN: I am trying to relate the figures as they relate to the year end of 1966. We just took our figures off recently. I was not up to date with them. Our liabilities amount to $1.8 million and we have $3 million in assets. Our capital and surplus amount to $1.2 million.

(*Translation*)

Mr. CLERMONT: I think Mr. Robertson mentioned that the turnover was $56 million, is that right?

(*English*)

Mr. ROPCHAN: $66.5 million.

(*Translation*)

Mr. CLERMONT: What is the sum which represents health insurance and personal accident insurance?

(*English*)

Mr. ROPCHAN: The figures of business in force do not relate to sickness and accident. That is life insurance business in force, including ordinary and group.

(*Translation*)

Mr. CLERMONT: Do you have the sum of the re-purchase for life insurance which the policy holder has as assets?

(*English*)

Mr. ROPCHAN: I wonder if you would be kind enough to repeat that question? I am afraid I did not get it.

(*Translation*)

Mr. CLERMONT: Would you have the figure representing the cash value of insurance policies?

(*English*)

I mean the cash value of life insurance policies.

Mr. ROPCHAN: We could give you the figures of the reserves required for the business in force.

Mr. CLERMONT: That will be all right.

The CHAIRMAN: Would that be similar, Mr. Humphrys?

Mr. HUMPHRYS: The actuarial reserves for the business in force must be at least equal to the cash surrender values. They may be higher but they may not be less. So, by knowing the figure for the actuarial reserves you would know approximately the cash surrender value.

Mr. CLERMONT: What is that figure?

Mr. ROPCHAN: That figure amounts to $1,444,103.

Mr. CLERMONT: Which will represent the cash value?

Mr. HUMPHRYS: Probably more than the cash values, yes.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, Clause 8 says that the Act must be approved "by a resolution adopted by at least two-thirds of the votes of the shareholders of the Provincial Company present." Mr. Humphrys, does this mean only shareholders actually present at the meeting or those that might be represented by proxy?

(*English*)

Mr. HUMPHRYS: It includes those present or represented by proxy.

Mr. CLERMONT: I ask this because clause 8 says "present", but according to you it is either by proxy or personally.

Mr. HUMPHRYS: The bill, as I have it before me, indicates at the top of page 3, "present or represented by proxy".

Mr. CLERMONT: Yes, I am sorry. It is all right. Thank you, Mr. Chairman.

Mr. WAHN: Mr. Chairman, could the witness tell me who will be the shareholders of the federal company? Who will own and control the new federal company?

Mr. ROPCHAN: The same shareholders that are in the provincial company.

Mr. WAHN: Who are they, essentially?

Mr. ROPCHAN: There are 660 of them in number.

Mr. WAHN: Is there any large, controlling shareholder?

Mr. ROPCHAN: The largest is about 40,000 shares, out of 300,000 outstanding.

Mr. WAHN: Which company is that?

Mr. ROPCHAN: It is not a company, it is an individual.

Mr. WAHN: Who is it?

Mr. ROPCHAN: It is Mr. Libin in Calgary.

Mr. WAHN: Mr. Libin?

Mr. ROPCHAN: In Calgary.

Mr. WAHN: The company is not a mutual company, it is a shareholding company?

Mr. ROPCHAN: Shareholding.

Mr. WAHN: Is Mr. Libin a Canadian?

Mr. ROPCHAN: Yes, he is.

Mr. WAHN: Are the shareholders essentially Canadian shareholders?

Mr. ROPCHAN: Yes, they are.

Mr. WAHN: And the directors will be Canadian?

Mr. ROPCHAN: Yes, they will be.

Mr. WAHN: And the officers?

Mr. ROPCHAN: They are.

Mr. WAHN: Under clause 7 the company is going to acquire the assets and liabilities of the provincial company. What price will it pay? Will it be in cash or will it be a share purchase or exchange, or just how will that be done?

Mr. ROPCHAN: It will be a share transfer. The company will transfer all its assets and liabilities to the federal company for an equal number of shares in the federal company. The status will remain the same when the whole company is transferred.

Mr. WAHN: What will be the selling price?

Mr. PERLEY-ROBERTSON: It is just a straight exchange of shares, Mr. Wahn.

Mr. HUMPHRYS: May I answer that?

The CHAIRMAN: Mr. Humphrys?

Mr. HUMPHRYS: It will be a transaction, Mr. Wahn, that has the sole effect of moving all the assets and liabilities of the provincial company into the federal company. The shareholders of the provincial company will become shareholders of the federal company in exactly the same proportions, so there will be no gain or loss to anyone in the transaction. The whole matter is a legal procedure for changing the corporate status of the company without changing the respective rights of the shareholders.

Mr. WAHN: My reason for asking is that clause 5(1) states:

> The Company shall not commence any business of insurance until six hundred thousand dollars of the capital stock have been subscribed...

That, presumably, is to ensure that there is capital available to meet any potential claims that might be made against the company. Whether that would be any protection or not would depend upon the nature of the agreement under which the federal company acquired the outstanding assets and liabilities of the provincial company. For example, I gather that the net value of the provincial company is $1.2 million, which is the amount of the capital and the surplus.

Then, to the extent that the price paid was greater than $1.2, you would be encroaching upon the $600,000 worth of capital which is required under clause 5.

Mr. HUMPHRYS: There will be no price paid, Mr. Wahn. The procedure contemplated here would be that the federal company would issue capital stock in exactly the same amount and number of shares as is outstanding in the provincial company. These shares of the capital stock of the federal company amounting to $600,000 would be handed to the provincial company and the provincial company would hand to the federal company all of its assets and liabilities; all its securities, cash and business in force. So, the situation would then be that the federal company has capital outstanding of $600,000. Its assets are exactly the same as the assets of the provincial company. Its liabilities are equal to the liabilities of the provincial company and the provincial company is left with its only asset this $600,000 in shares of the federal company and its only liability an equal amount to its shareholders. It then winds up and hands these shares to its own shareholders, so all the shareholders of the provincial company then become shareholders of the federal company and the federal company then presents a balance sheet which is identical to that of the provincial company. So there is no payment of dollars by the federal company to provincial company or to its shareholders.

Mr. WAHN: Just to make it clear in my own mind, what is the outstanding capital of the provincial company now, not the authorized capital.

Mr. ROPCHAN: The issued capital?

Mr. WAHN: The issued capital, yes.

Mr. ROPCHAN: $600,000.

Mr. WAHN: $600,000?

Mr. ROPCHAN: $600,000, right, $600,290.

Mr. WAHN: So the shares of the federal company are $10 par value shares?

An hon. MEMBER: No, $2.

Mr. WAHN: Well, clause 3 states:

> The capital stock of the Company shall be one million dollars divided into shares of ten dollars each.

Mr. ROPCHAN: The first action to be taken, Mr. Humphrys, would be that we would have to split those five for one to create the same par value shares in the federal company to enable us to transfer an equal number of shares right across. If we split them five for one it would then bring down the par value of the shares in the federal company to $2, as it now exists in the provincial company.

Mr. WAHN: What is the purpose of that?

Mr. ROPCHAN: I think it is part of the requirement of the act that they be $10.

Mr. PERLEY-ROBERTSON: Under the form in the act we have to have it this way, $10 par value.

Mr. LAMBERT: Mr. Chairman, it makes little difference, actually, whether they are $10 or $2. The person who is going to be holding 20 shares in the

provincial company will get four shares in the federal company, but there will still be the $600,000 of capital stock and it will, indeed, be subscribed.

Mr. WAHN: There is nothing in this bill that talks about a split of the stock.

Mr. LAMBERT: There is no need to.

Mr. PERLEY-ROBERTSON: Actually there is no need to, but to enable the shareholders to understand the transaction, in the opinion of the directors it could be better to split, thereby restoring the present shareholders to the same position and number of shares and par value of shares as they have in the provincial company.

Mr. WAHN: Well, I just want to have it clear. Mr. Humphrys, is it essential under the act that when a company is incorporated it should have $10 par value shares rather than, say $2 par value shares?

Mr. HUMPHRYS: Section 5(4) of the Canadian and British Insurance Companies Act, which governs these companies, reads:

> The capital stock of the company shall be divided into shares of one hundred dollars each, or if the special Act so provides, into shares of five dollars each or any multiple thereof, but not exceeding one hundred dollars each.

So in order to be within that provision of the general act it must be between $5 and $100.

Mr. WAHN: You are circumventing that provision if immediately thereafter you permit them to split their shares into shares of $2 par value each.

Mr. HUMPHRYS: There is provision in the law for subdivision of the par value of shares. That was put in by amendment in 1965. It reads:

> Notwithstanding anything contained in its Act of incorporation or in this Act, if the subscribed stock of a company is fully paid, the company may, by a by-law made by the directors and confirmed by at least two-thirds of the votes cast at a general meeting of the shareholders . . . divide the capital stock of the company into shares of one dollar each or any multiple thereof but not exceeding one hundred dollars each.

It goes on to say that where the capital stock of a life insurance company:

> . . .is divided into shares the par value of which is less than five dollars each, a holder of the shares shall have.....the number of votes that equals the product obtained by dividing the total par value of all his shares. . . by five.

This means that if you had a $10 par value and split to $1 you would not get ten votes, you would only get two votes. The reason for that restriction was to prevent a splitting of stock in order to multiply the votes of the shareholders to such an extent that they might outbalance the votes of the participating policyholders because under a life insurance company the participating policyholders also have voting rights. So, in 1965 Parliament amended the law to permit the par value to be split down to $1, but they put this stipulation in to prevent multiplying the voting power of shareholders unduly for that purpose.

Mr. WAHN: Am I correct in thinking, Mr. Humphrys, that the holder of one of these original $10 par value shares, when it is split into five shares, would have two votes?

Mr. HUMPHRYS: Yes.

Mr. CLERMONT: It would be all of the same proportion.

Mr. HUMPHRYS: Yes. In fact, you would create a situation where you would have fractional votes if you had less than ten shares.

Mr. WAHN: How would that stock be affected under the act, just by by-law?

Mr. HUMPHRYS: By by-law of the directors approved at a special general meeting.

Mr. WAHN: No amending special act would be required?

Mr. HUMPHRYS: No.

Mr. WAHN: Well, in your view, Mr. Humphrys, is this procedure in accordance with what is contemplated by the statute?

Mr. HUMPHRYS: Yes. I do not regard it as being contrary to the intention of the statute.

Mr. WAHN: Will the shares of the federal company, which are issued to acquire the business of the provincial company, be $10 shares? In other words, will they be issued before or after the split?

Mr. HUMPHRYS: I think it could be done either way, Mr. Wahn. They could be issued at $10 par and you might have to give fractional shares if you did it that way. Then at a split the shares of the new par value could be handed out in exchange for the fractions. The alternative would be to split first into $2 and then exchange share for share.

Mr. WAHN: So, they could not split before that issue. They could not split, could they, before that happens? Is it not true, Mr. Humphrys, that under the statute only fully paid shares may be split?

Mr. HUMPHRYS: That is correct, sir.

Mr. WAHN: If that is so I presume they would have to issue the shares at $10 as payment for the business of the provincial company and then split? Am I not right?

Mr. HUMPHRYS: I think that would be right.

Mr. WAHN: Well then, if that is so there are 300,000 shares at $2 each of the provincial company now outstanding, right?

Mr. HUMPHRYS: Right.

Mr. WAHN: Am I right in thinking, then, that you will issue 60,000 $10 shares of the federal company in full payment for the business and assets of the provincial company?

Mr. ROPCHAN: Yes.

The CHAIRMAN: Have you any further questions, Mr. Wahn?

Mr. WAHN: Well, what happens, Mr. Humphrys, to the surplus of the provincial company? You have $1.2 million in net assets of which $600,000 is capital, over into the federal company?

Mr. HUMPHRYS: It becomes a surplus of the federal company. I think I could make it clear if we considered that the assets of the provincial company were $3 million, its capital $600,000, its liabilities $1.8 million and its surplus would be $1.2 million. Now, the federal company would issue $600,000 of capital stock and it would receive the $3 million of assets. So, its balance sheet would show assets of $3 million; it would show the $600,000 of its own capital that it issued as a liability to its own shareholders and then it would take over the $1.8 million liability to the policyholders that become policyholders of the federal company. The difference between the $3 million assets it has taken over, the $600,000 capital that has been issued and the $1.8 million liabilities to the policyholders is the $1.2 million surplus.

Mr. WAHN: I have one final question, Mr. Chairman. I think you mentioned the liabilities were $1.8 million and there were actuarial reserves to cover the cash surrender value of $1.4 million. Am I right in thinking that the $1.4 million forms part of the $1.8 million worth of liabilities?

Mr. ROPCHAN: That is right.

Mr. WAHN: That is all, Mr. Chairman.

Mr. LAFLAMME: Mr. Chairman, I do not know if I understood Mr. Humphrys correctly in his first statement. This company has been in operation for the last ten years?

Mr. HUMPHRYS: Yes. Its history, in a sense, goes back much further than that because it had its origin in an assessment club that was operating in British Columbia back in the 1920's. It became a mutual life insurance company in 1951 and it became a stock company in 1956, so it has been operating in its present form for ten years.

Mr. LAFLAMME: For ten years.

Mr. HUMPHRYS: The new management took over in about 1961.

Mr. LAFLAMME: In 1961. Did I understand you correctly when you stated that the company suffered losses for the past years?

Mr. HUMPHRYS: That is correct, sir.

Mr. LAFLAMME: Could you elaborate a little more on that? What are the reasons for the losses and what is the degree of those losses?

Mr. HUMPHRYS: The reason is that the company was not very active until the new ownership took over. At that time more capital was put into it and it began to expand and do a certain additional volume of business. In a life insurance company when it is new and small and when it begins to expand, the expenses of putting new business on the books are quite heavy. So, the balance sheet shows a loss for the early years, until the volume of business becomes great enough that the premium income will begin to support the overhead expenses and the expenses of writing new business. So, you get the balance sheet effect of an operating loss for some initial period and it is therefore necessary to be sure that there is enough capital and enough surplus in the company at the outset to provide the resources to carry it through the initial period of expansion. It must carefully control its rate of expansion to see that it does not run its safety margins too low. Therefore so there is care taken to provide adequate protection and adequate safety margins for the policyholders.

Mr. LAFLAMME: But were the losses suffered more by what we call accident insurance or life insurance?

Mr. HUMPHRYS: I do not know whether Mr. Putz would have the figures split between the underwriting losses on the life insurance operation and the underwriting losses on the accident and sickness.

Mr. A. PUTZ (*Secretary-treasurer, North West Life Assurance Co.*): I can tell you that the accident and sickness business represents a very small portion of our business. We do a very nominal amount of this. For example, in 1966, out of some $813,000 of premium income, only $11,000 was attributable to sickness and accident insurance, so that the substantial portion of our business is life insurance.

Mr. HUMPHRYS: In 1965 the company suffered an underwriting loss, namely a decrease in its surplus margins of $218,000. In 1966 the underwriting loss was $145,000. So, the situation is improving. The company raised more capital in 1966 and it now appears to us in the department that the company will be able to put itself into a profitable position within the capacity of its capital and surplus, provided it does not launch any program of unduly rapid expansion.

Mr. LAFLAMME: Thank you, Mr. Chairman.

Mr. IRVINE: Mr. Chairman, first of all I would like to ask if the head office of this company is located in Vancouver?

Mr. ROPCHAN: That is right.

Mr. IRVINE: It says, according to clause 6, that the head office shall remain in the city of Vancouver.

Mr. PERLEY-ROBINSON: Excuse me, sir. It says "shall be in the city of Vancouver".

Mr. IRVINE: Yes, shall be in the city of Vancouver. Then I would assume from this that they are operating now as a company under a charter from the province of British Columbia, is that right? In essence, all they wish to do is to transfer from a provincial charter to a federal charter, is this right?

Mr. ROPCHAN: Right.

Mr. IRVINE: Now, I would like to ask this question: why? What are the advantages and what is the purpose? There must be a purpose for this.

Mr. ROPCHAN: The purpose, purely and simply is that we have been in existence since 1951, we have progressed slowly but in a fairly healthy manner and we look forward to the day when we can expand beyond the existing borders, that is, the provinces of British Columbia and Alberta. In order to enable us to do this it seems essential that we obtain a federal charter. Furthermore, as a young, growing company it is our desire to come under federal jurisdiction for supervisory purposes because of the technical competence of the superintendent of federal companies.

Mr. IRVINE: Now, you mention operations in British Columbia and Alberta. Are you also chartered under the province of Alberta?

Mr. ROPCHAN: No, we are not. We are registered as an extraprovincial company in Alberta.

Mr. IRVINE: Fine, yes. Thank you, Mr. Chairman.

(*Translation*)

Mr. LATULIPPE: We said, did we not, that the company was a specifically Canadian company?

The CHAIRMAN: In which way?

Mr. LATULIPPE: Is it a solely Canadian company? There are no interests in it held elsewhere than in Canada?

(*English*)

Mr. ROPCHAN: There are some shareholders who are resident in the United States.

Mr. PERLEY-ROBINSON: Well, 98.08 per cent of the shareholders are in Canada and .76 per cent in the United States and 1.07 per cent in Great Britain.

Mr. CLERMONT: 98 per cent?

Mr. PERLEY-ROBINSON: 98.08 per cent are in Canada.

Mr. CLERMONT: And 7 per cent in the United States?

Mr. PERLEY-ROBINSON: .76 per cent in the United States.

(*Translation*)

Mr. LATULIPPE: The profits and the investments will be exclusively made in Canada? Will the re-investment be solely in Canada?

(*English*)

Mr. ROPCHAN: At the present moment it is exclusively in Canada. This depends on opportunities, but it is intended that it will be solely in Canada.

(*Translation*)

Mr. LATULIPPE: In regard to certain regions, let us say, you are going to get an "X" amount of insurance in a given region. In return, do you intend to invest in that region?

(*English*)

Mr. ROPCHAN: If it is economically sound for the company to do so, that would be the case. It depends. After all, the company seeks the highest return it can find for the benefit of its policyholders, to enable it to pay dividends to its policyholders. Hence, we would invest not by locale but by industry and the return that is available. However, as the company expands it is only reasonable to assume that it will find investments in locales in which it operates.

(*Translation*)

Mr. LATULIPPE: I know several insurance companies which sell insurance policies, get capital from different regions. The region might be economically good to get capital from, but when it comes to re-investing this is no longer the case and these regions remain backward, yet they pay their capital into the insurance companies but do not benefit in return. They do not develop as they should. It seems to me that it would be logical that if an insurance company gets a certain amount of capital from a given region it should benefit from re-investment by the company.

(*English*)

Mr. ROPCHAN: The investment requirement of the company is actually laid down by the insurance act. Therefore, when we invest we must buy only those securities that are approved for life insurance companies. Now, it may be that certain areas have certain offerings, and if they conform with the requirements of the life insurance act, then there would be no reason to believe that any company would not buy these. If they are not approved—so often there are local issues that are not—it is beyond our ability to invest in those because of the act.

(*Translation*)

Mr. LATULIPPE: In consequence, I would have no objection to the incorporation of new companies, but it does seem to me that I should have an assurance that there will be possibilities, if you are getting capital out of a given area, for that area to be able to benefit from re-investments by the company incorporated, and that the company be exclusively Canadian and all benefits and re-investments be made in Canada. With this point of view in mind, I have no objection to the incorporation of this new company because I think it is a good idea to develop companies of this nature.

The CHAIRMAN: Any other questions?

Mr. IRVINE: I have a supplementary question, Mr. Chairman. The statement was made a moment or two ago, I believe, that 98.8 per cent of these shareholders—

Mr. ROPCHAN: 98.08.

Mr. IRVINE: — were in Canada. That is rather ambiguous. Are they residents of Canada? Are they temporarily in Canada?

Mr. ROPCHAN: They are residents of Canada.

Mr. IRVINE: And as far as you know they are Canadian citizens?

Mr. ROPCHAN: Yes, they are.

Mr. MORE (*Regina City*): Is that of individuals or of the value of the shares?

Mr. ROPCHAN: It is individual shareholders by shareholdings.

Mr. PUTZ: That is the number by shareholdings.

Mr. MORE (*Regina City*): In other words, 98 per cent of the 300,000 shares are owned by Canadian residents.

Mr. IRVINE: Mr. Chairman, may I ask another brief question? Perhaps the Superintendent of Insurance would like to answer this, but I am concerned about this liability factor of, I believe, $1,800,000. Is it not the custom to re-insure a certain percentage of the policyholders for the protection of the company? Am I right in this? If so, to what extent do you re-insure?

Mr. HUMPHRYS: I do not think I could give you any specific ratio. Each company must set its own retention limits, to use the technical phrase, having in mind its size and its capital and surplus. A small company would not want to retain a very large amount of risk on any one life. Now, perhaps Mr. Ropchan can indicate what the retention limits are at the present time.

Mr. ROPCHAN: The retention limit of the provincial company is $15,000. We re-insure the excess.

Mr. IRVINE: Of individuals?

Mr. ROPCHAN: For life.

Mr. IRVINE: Of individual policies?

Mr. ROPCHAN: Right.

Mr. IRVINE: Is that right?

Mr. ROPCHAN: Yes.

Mr. HUMPHRYS: So they would not be liable to pay more than $15,000 on any one life.

Mr. IRVINE: Now, may I ask of that $1,800,000, approximately how much would be re-insured?

Mr. ROPCHAN: When you are speaking of dollars, of the $66,500,000 that we have in force, approximately $22 million of it is re-insured.

Mr. IRVINE: Thank you, Mr. Chairman.

Mr. MONTEITH: Just as a supplementary, do you have re-insurance placed with you by other companies?

Mr. ROPCHAN: Yes, we do.

The CHAIRMAN: Now, if I may ask a brief question with respect to the name. Have you carried out a process of checking on the possibility of confusion on the part of the public with companies that have a similar name?

Mr. HUMPHRYS: We had a search made, Mr. Chairman, by the Department of the Registrar-General. The title North West or Northwestern has been a fairly popular phrase in company names. We examined the list and we did not think that there were any companies on the list, in fields of endeavour closely related to this company, to cause any confusion.

The CHAIRMAN: If you have no further questions, I will call the preamble. Shall the preamble carry?

Preamble agreed to.

Clauses 1 to 9 inclusive agreed to.

Title agreed to.

Bill carried without amendment.

The CHAIRMAN: Shall I report the bill without amendment

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Well, gentlemen, that completes the business for our meeting today. I will excuse our witnesses and I declare our meeting adjourned. Our next meeting will be Tuesday morning, January 24, when we will have the opportunity to hear from the Mercantile Bank of Canada.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 38

TUESDAY, JANUARY 24, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Representing The Mercantile Bank of Canada: Messrs. Robert P. MacFadden, President; James S. Rockefeller, Chairman; Stewart B. Clifford, Executive Vice-President and General Manager; André Bachand and Kenneth B. Palmer, Q.C., Directors; and Henry Harfield, Counsel to First National City Bank.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25562—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,	Davis,[1]	Lind,
Cameron (*Nanaimo-Cowichan-The Islands*),	Flemming,	Macaluso,[2]
Cashin,	Fulton,	McLean (*Charlotte*),
Chrétien,	Gilbert,	Monteith,
Clermont,	Irvine,	More (*Regina City*),
Coates,	Lambert,	Munro,
Comtois,	Latulippe,	Valade,
	Leboe,	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

[1] Replaced Mr. Lamontagne, January 20, 1967.

[2] Replaced Mr. Addison, January 20, 1967.

ORDER OF REFERENCE

FRIDAY, January 20, 1967.

Ordered,—That the names of Messrs. Davis and Macaluso be substituted for those of Messrs. Lamontagne and Addison on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25562—1½

MINUTES OF PROCEEDINGS

TUESDAY, January 24, 1967.
(76)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Cashin, Chrétien, Clermont, Davis, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, Macaluso, Monteith, Munro, Wahn—(18).

Also present: Messrs. Andras, Cameron (*High Park*), Cowan, Johnston, Nowlan, O'Keefe, Stanbury, Thompson, Wahn, Whelan, Yanakis.

In attendance: Messrs. Robert P. MacFadden, President, The Mercantile Bank of Canada and Vice-President, First National City Bank; James Stillman Rockefeller, Chairman, The Mercantile Bank of Canada and Chairman, First National City Bank; Stewart B. Clifford, Executive Vice-President and General Manager, The Mercantile Bank of Canada; André Bachand and Kenneth B. Palmer, Q.C., Directors, The Mercantile Bank of Canada; Henry Harfield, counsel to First National City Bank; C. F. Elderkin, Special Adviser, Department of Finance; Denis Baribeau and Miss M. R. Prentis, research assistants.

The Committee resumed consideration of the banking legislation.

The Chairman introduced the witnesses and Messrs. Palmer and MacFadden made opening statements. In accordance with the resolution passed at the meeting of October 13, 1966, the brief of The Mercantile Bank of Canada is attached as *Appendix KK*.

In the course of his statement Mr. Palmer tabled the following documents:

(a) Memorandum of Agreement between the Rotterdamsche Bank N. V. and the International Banking Corp. (I.B.C.) a subsidiary of First National City Bank;

(b) Resolution adopted at a special meeting of the Board of Directors, International Banking Corporation, July 16, 1963;

(c) Telegram dated July 16, 1963 from First National City Bank to Rotterdamsche Bank.

On motion of Mr. Monteith, seconded by Mr. Wahn,

Resolved,—That the documents tabled by Mr. Palmer be distributed to the members of the Committee and included in the Minutes of Proceedings and Evidence. (*See Appendix LL*).

The witnesses were questioned, and, the questioning continuing, the Committee adjourned at 12:55 p.m. until 3:45 p.m. this day.

AFTERNOON SITTING
(77)

The Committee resumed at 3:45 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Cashin, Chrétien, Clermont, Davis, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, Macaluso, Monteith, Munro, Wahn—(18).

Also present: Messrs, Cowan, Forrestall, Grégoire, Johnston, Keays, Langlois (*Mégantic*), Mackasey, Nowlan, Régimbal, Thompson.

In attendance: The same as at the morning sitting.

Questioning of the witnesses was continued.

During their testimony Mr. Rockefeller and Mr. MacFadden tabled copies of memoranda they had written following a meeting with Mr. Walter Gordon, the then Minister of Finance, on July 18, 1963.

On motion of Mr. Basford, seconded by Mr. Monteith,

Resolved,—That the memoranda of Messrs. Rockefeller and MacFadden be distributed to the members of the Committee and included in the Minutes of Proceedings and Evidence. (*See Appendix MM*).

The questioning continuing, at 6:00 p.m. the Committee adjourned until 8:00 p.m. this day.

EVENING SITTING
(78)

The Committee resumed at 8:30 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Davis, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, McLean (*Charlotte*), Monteith, Munro, Wahn—(17).

Also present: Messrs. Andras, Cowan, Grégoire, Groos, Johnston, Kindt, Mackasey, Otto, Peters, Thompson, Whelan.

In attendance: The same as at the morning and afternoon sittings, except Mr. Baribeau.

Questioning of the witnesses was continued, and concluded.

The Chairman thanked the witnesses for appearing before the Committee, and they then withdrew.

At 10:55 p.m. the Committee adjourned until 11:00 a.m., Thursday, January 26, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

Extract from Minutes of Proceedings, Thursday, January 26, 1967.

On motion of Mr. Clermont, seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

Resolved,—That copies of a memorandum by Robert P. MacFadden, President, the Mercantile Bank of Canada, filed with the Chairman at the meeting of January 24th, be distributed to the members of the Committee and included in the Minutes of Proceedings and Evidence. (*See Appendix NN, Issue No. 38*).

EVIDENCE

(*Recorded by Electronic Apparatus*)

TUESDAY, January 24, 1967.

The CHAIRMAN: I now declare formally open this meeting of the standing committee of the House of Commons on finance, trade and economic affairs.

Gentlemen, we are resuming our consideration of the proposed banking legislation. Our agenda this morning is to hear a brief presented on behalf of the Mercantile Bank of Canada.

With us this morning we have Mr. Robert P. MacFadden, President of the Mercantile Bank of Canada and Vice-President of the First National City Bank. As I introduce these gentlemen, perhaps they would incline their heads to indicate to the members of the Committee who they are. First, Mr. MacFadden, then to his right, Mr. James Stillman Rockefeller, Chairman of the First National City Bank of New York and Chairman of the Mercantile Bank of Canada. Then we have Mr. Stewart B. Clifford, Executive Vice-President and General Manager of the Mercantile Bank of Canada. Then we have Mr. André Bachand, Director of the Mercantile Bank of Canada, and Mr. Kenneth B. Palmer, Q.C., Director of the Mercantile Bank of Canada.

I understand that Mr. Palmer and Mr. MacFadden are going to present the brief. I have explained to them our procedure, that they are to present a brief summary of the document they have presented to us, following which they and their colleagues will be open to questions on the issues raised in the brief, firstly; following which, if time permits, any other issues that the members of the Committee deem relevant to the subject matter under consideration. Mr. Palmer and Mr. MacFadden, you may proceed.

Mr. KENNETH B. PALMER, Q.C. (*Director, The Mercantile Bank of Canada*): Mr. Chairman, and gentlemen, although I am general counsel of the Mercantile Bank of Canada, I am speaking to you today rather as a Canadian director of the bank. The submission of the bank which has been filed with your Committee clearly sets out the reasons why we object to clause 75 (2) (g) of Bill No. C-222.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I wonder if I might ask the witness to take the microphone a little closer. It is very difficult to hear him.

Mr. PALMER: As is generally known, we object because the provision is retroactive and discriminatory. I do not propose to recapitulate the arguments that have been advanced in the brief. But I would like to emphasize one point—the acquisition of Mercantile Bank by First National City Bank was not a "foreign take-over." The Mercantile Bank was incorporated, by parliament, with the full knowledge that it would be foreign owned. What has happened was simply a transfer of ownership from one foreign owner (Dutch interests) to another (United States interests).

No one disputes the proposition—certainly I do not—that it is desirable that the control of Canadian banking should remain in Canadian hands, but when we speak of "the control of Canadian banking" what do we mean? Surely our thinking should not be confused or distorted by the fact that one small Canadian bank—whose assets represent less than one per cent of the total assets of all Canadian banks—is under United States control, a control that was acquired at a time when there were not restrictions against such an acquisition. As a matter of fact, there are no restrictions today.

I would hope that your Committee will view this matter in what I think is the proper perspective and will realize that no dire consequences would ensue if section 75 (2) (g) were retained for the future but there were included in it something in the nature of a "cut-off date" so that it would not apply to the one small Canadian bank to which, on the present wording, it does apply.

I do not, of course, ignore the publicity that has been given to a certain discussion that took place in Ottawa on July 18, 1963, with the then Minister of Finance, but I submit that it really should not matter who said what to whom at that interview. The facts of the matter are, and, with your permission, Mr. Chairman, I am now tabling copies of the relevant documents—

The CHAIRMAN: To what documents do you refer, Mr. Palmer?

Mr. PALMER: I will come to that in just a moment.

The CHAIRMAN: Well, I think that before you table them we will hear what the documents are and decide whether we wish to receive them.

Mr. PALMER: Very well. The documents are the following:

1. A copy of a Memorandum of Agreement dated June 26, 1963, between Rotterdamsche Bank of the Netherlands and International Banking Corporation, providing for the sale and purchase of all the shares of the Mercantile Bank of Canada.

As I say, that agreement is dated June 26, 1963.

The CHAIRMAN: For the record, sir, what or who is the International Banking Corporation?

Mr. PALMER: A wholly owned subsidiary of First National City Bank of New York.

The CHAIRMAN: Order. One minute, please. Somebody is walking around in the back of the room, and I have already issued instructions to the representatives of our witnesses that nothing is to be distributed in a way that would interrupt our meeting. If we do not have some compliance with orderly directions with respect to order, I will have to ask the people in question to be excluded.

Mr. CLERMONT: Mr. Chairman, on a point of order, why is this supplement being distributed to the press or to others before they are distributed to members of this Committee?

The CHAIRMAN: That is a very good point.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Absolutely. We want an explanation of that, Mr. Chairman.

The CHAIRMAN: I presume you are not asking me for the explanation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I suggest that they all be recalled right now.

The CHAIRMAN: Would you mind asking your associates to recall these documents, sir?

Mr. BASFORD: Mr. Chairman, I rise on a point of order, and move that the documents be tabled and be made a part of the record.

The CHAIRMAN: If I may say so before accepting your motion—I do not want to think that we would get sidetracked on a procedural issue—the matter is really quite simple. First, we hear what the document and any annexed documents are and then the members take a brief look at them and then I will receive your motion. If that is done I think there will be no problem. I raise the matter of distribution more from the point of view of disrupting the witness' presentation because of noise and so on. It made it difficult for me to hear; I do not know about the other members present. Would you proceed, Mr. Palmer?

Mr. PALMER: I should say, Mr. Chairman, I had not known that the distribution was taking place at the moment.

The CHAIRMAN: Well, I can say that I specifically mentioned to one of your associates—not necessarily on the banking side, but one of your advisers—before the meeting began that nothing was to be distributed to the audience during the meeting with a view to not having it interrupted, as much for the witnesses' benefit as for anyone else's. Would you proceed, sir?

Mr. PALMER: The second document that I propose to table, is a copy of a resolution passed by the board of directors of the International Banking Corporation on July 16, 1963, approving the purchase of all shares of the Mercantile Bank of Canada on the basis set forth in a memorandum of agreement.

The CHAIRMAN: What is the date?

Mr. PALMER: The date is July 16, 1963; the agreement was June 26, 1963.

The CHAIRMAN: Would you describe the document?

Mr. PALMER: A copy of the resolution passed by the directors of International Banking Corporation.

The CHAIRMAN: Yes, sir, and the other documents?

Mr. PALMER: There is ony one other, a copy of a cable sent by Walter Wriston, vice president of International Banking Corporation; he is also executive, vice president of First National City Bank. The cable is addressed to Dr. C. F. Karsten, managing director of Rotterdamsche Bank in the Netherlands, dated July 16, 1963, and reads as follows:

> Our board acted affirmatively on bank and trust company today. Rockefeller Moquette visit Ottawa Thursday next and domestic banks will be informed by personal visits on Monday Tuesday next.

The CHAIRMAN: Before you proceed, Mr. Palmer, I will ask the clerk to distribute copies of these documents to the members so they will have a chance to glance at them while you are finishing your presentation. When you and your associate have finished your initial presentation, I will hear from the Committee if they wish to have them formally tabled. Will you proceed, Miss Ballantine, to distribute the documents.

Mr. PALMER: May I continue?

The CHAIRMAN: Go ahead.

Mr. PALMER: As I was saying, just before I referred to the documents, they do show that prior to the July 18, 1963 discussion, the First National City Bank—through a wholly owned subsidiary—had made a firm commitment to purchase the Mercantile Bank. At that time—and I want to emphasize this again—no approval for consent by the Canadian government or any governmental agency in Canada was required.

There is one further point that I think I have to mention, namely the intervention of the United States State Department, which has been given a great deal of publicity. But I venture to suggest to your Committee, Mr. Chairman, that here again the issues have become confused. I am quite sure that, in your minds, and in the minds of a large section of the public, the intervention of the United States State Department has done the Mercantile Bank no good. But let us look at the matter, for a moment, in this way. Suppose the situation were reversed and some foreign country was proposing to enact discriminatory legislation aimed solely at an established Canadian bank or other established Canadian business operating within its borders. Would you not, would I not, expect the Canadian government to do exactly what, in this case, the United States government has done? As a matter of fact, in several instances, the Canadian government has done just that.

But I submit that all that is really beside the point. I would hope that your Committee will look upon this matter simply as one involving a Canadian bank, established and operating in Canada for some thirteen years, incorporated by parliament with the full knowledge that it would be foreign-owned, and one that has done, and wants to continue to do, something constructive in Canada. I would not be a director if I did not feel that this is the case.

Thank you, Mr. Chairman.

The CHAIRMAN: I understand, Mr. MacFadden, that you have some brief supplementary remarks?

Mr. ROBERT P. MACFADDEN (*President, The Mercantile Bank of Canada and Vice-President, First National City Bank*): Yes, Mr. Chairman, with your permission.

One of the principal reasons why we welcome this opportunity to appear today before this Committee is that this is, literally, the first opportunity The Mercantile Bank of Canada has had to present publicly its views on Paragraph 75 (2) (g) of Bill No. C-222.

A great many views have been expressed in the past few months, but none by The Mercantile Bank of Canada. In conformity with Canadian parliamentary tradition, we have refrained until today from telling our own story as to the effect of Paragraph 75 (2) (g) upon The Mercantile Bank both in principle and in practice. We shall, to the extent we are able to, state them forthrightly today.

Our submission to your Committee recounts the history of The Mercantile Bank, describing its transfer of ownership from the Dutch, to whom the charter was granted, to First National City Bank, who owns it today.

Our submission also attempts to sketch the role that The Mercantile Bank plays in the Canadian financial community to dispel the myth that The Mercantile Bank is here to serve only United States interests.

When The Mercantile Bank of Canada obtained its charter in 1953 it was wholly owned by National Handelsbank of Holland. Mercantile branches were opened in Montreal, Vancouver and Toronto. In 1960, National Handelsbank was acquired by Rotterdamsche Bank N.V. of Rotterdam which decided to withdraw from Canada. Thus, First National City Bank had the opportunity to purchase the shares of Mercantile. Since then four additional Mercantile branches have been opened.

First National City Bank, incorporated in 1812, is a major factor in retail banking in the greater metropolitan area of New York City, in national banking across the continental United States and for United States corporations and correspondent banks, and internationally through 197 branches and affiliates in 60 countries. For nearly 100 years, First National City Bank has been an active lender to developing natural resource industries in Canada, as well as to major Canadian companies doing a broad business outside of Canada.

While The Mercantile Bank of Canada emphasizes banking service for business, including corporation financial services and international services, it also provides a full range of retail banking facilities at all of its branch locations.

May I respectfully call your attention now to two practical aspects of Paragraph 75 (2) (g) which you and other members of the Committee may wish to have in mind during our discussion.

The first is that establishing a ratio between total liabilities, including all capital accounts to authorized capital is, to say the least, unique and without precedent in banking regulations or practice internationally. Most countries requiring a capital ratio relate capital account to deposits. It is a fact that authorized capital in Canada bears no relationship to total liabilities, these ratios exclusive of The Mercantile Bank, varying from 28 to 1 to 70 to 1. It is, therefore, quite clear that banks in Canada do not relate liabilities to authorized capital, but rather to the total of the shareholders' equity. To compound the unfairness of Clause 75 (2) (g), we are being required to include our capital accounts, which are equity funds, in our total liabilities and to say that the total of deposits and equity funds and other liabilities must not exceed 20 times authorized capital. In Canada, while not spelled out in legislation, the traditional relationship between deposits from the public and shareholders' equity is approximately 20 to 1.

The second problem is how we can control the amount of money which our customers or others from around the world deposit with us. Corporate and correspondent bank customers frequently deposit large sums with us without prior warning to us. Thus, they can unwittingly put us in violation of the law. We find no safeguard in Bill No. C-222 to protect us against such contingencies.

The rest of our submission to you, gentlemen, probably needs no emphasis from me at this time, except that I would like to call attention to the fact that more than 86 per cent of our borrowers are companies that are wholly Canadian owned or Canadian controlled. Only something under 9 per cent of our borrowers are United States owned companies. Less than a quarter of our outstanding loans are to United States customers. I am sure you gentlemen have heard, as

we have, the claim that the growth of The Mercantile Bank must be limited because we allegedly have some power to require United States owned companies operating in Canada to do business with us. The record shows that if indeed we have this mystical power we have not exercised it very well. Of course, anyone familiar with the operations of modern business corporations knows that when they go abroad, be they Canadian companies going to the United States, or United States companies coming here, they usually deal with local banks.

To summarize, the First National City Bank, through its subsidiary, had a binding and enforceable contract to acquire the shares of The Mercantile Bank from the Dutch owners prior to the time Mr. Rockefeller and I called on the then Minister of Finance. To penalize us in 1967, for an action we took in 1963, when we were legally entitled to do so is retroactive legislation.

The terms of Paragraph 75(2)(g) can apply only to The Mercantile Bank. This is discriminatory legislation. Foreign ownership of Canadian banks is adequately circumscribed elsewhere in Bill C-222.

Compliance with Paragraph 75(2)(g) is impractical and beyond the control of The Mercantile. This is punitive legislation.

Finally, The Mercantile has demonstrated that it serves Canadian interests well and has done nothing that would justify the kind of treatment Paragraph 75(2)(g) would accord it. Thank you, Mr. Chairman.

The CHAIRMAN: Now, gentleman, you have had an opportunity to take a look at the documents which have been circulated and which were referred to by Mr. Palmer. Is the Committee willing to have me accept a motion that they be tabled and form part of our record?

Mr. MONTEITH: I so move.

Mr. WAHN: I second the motion.

Motion agreed to.

The CHAIRMAN: Now, gentlemen, our usual approach is for myself, as Chairman, to suggest to the Committee the order in which we will discuss topics raised by our witnesses. I have looked over the brief, and it would seem to me that it falls into certain natural sections.

Firstly, I would suggest that the statement of facts can be taken together with paragraph B, retroactivity, as one topic with paragraph A and C "discrimination and punitiveness" taken together as another topic; followed by something that is not marked as a paragraph but is the second paragraph of page 9, which seems to raise a specific area of discussion of Canadian government control over banks such as the Mercantile. For the sake of convenience I will refer to it as paragraph E. Finally, paragraph D, the growth opportunities for Canadian business at home and abroad, which our witnesses suggest may be enhanced by their firm's operation.

Is my suggestion clear to the Committee? Are we in agreement that we will proceed in this order?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, I have a further question to Mr. MacFadden before going on to recognize members who wish to pose questions. Have your summary,

and that of Mr. Palmer, been reproduced in a way that they can be distributed forthwith to the Committee; or—putting it more bluntly—are those materials in the press kits of your public relations adviser?

Mr. MacFadden: They are available for distribution to the Committee.

The Chairman: Perhaps you might ask someone to circulate them and while this is being done, I will ask the members of signify to me in the usual way in what order they would like to be heard. I see Mr. Laflamme, Mr. Monteith, Mr. Cameron, Mr. Clermont, Mr. Wahn, Mr. Munro, Mr. Chrétien, Mr. Lind, Mr. Flemming.

Mr. Cameron (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, would you see that those are distributed to the Committee before the press gets them.

The Chairman: Order. Yes. My purpose in not recognizing members of the Committee immediately to pose questions was because it occurred to me that while the witnesses were making their initial presentation these copies might have been reproduced for the use of others and I thought the Committee should have an equal opportunity to see them while they pose their questions. I would ask those in the audience to take their seats so that we may continue with our hearing in the orderly fashion we have attempted to follow in the past.

Mr. Cameron (*Nanaimo-Cowichan-The Islands*): I would like a copy of the presentation. None was distributed to this side.

The Chairman: That is right.

Mr. Cameron (*Nanaimo-Cowichan-The Islands*): Let us speak to these public relations men from across the line and tell them we do not approve of this.

The Chairman: Order. I would ask that distribution not be made in the audience until the members receive copies of these documents. Hand out the whole kit. I am informed that these are included in a handy press kit, and I think we shall just circulate them around to the members to assist them in their deliberations. Both Mr. Palmer's introductory remarks and Mr. MacFadden's introductory remarks are included in the brown envelope which I have instructed the clerk to distribute at this time. Has everyone had a chance to locate the documents in question?

(*Translation*)

To begin I yield the floor to Mr. Laflamme. Mr. Laflamme are you ready to begin with your questions?

(*English*)

Mr. Laflamme: Mr. Palmer, in Paragraph 2 of your summary you state that these articles apply only to the Mercantile Bank and you talk about the question of retroactivity. You knew in 1963 that all the charters for the banks were issued for ten years.

Mr. Palmer: Ordinarily, or in the normal course, they would come up for review in 1964.

Mr. Laflamme: They would come up for review in 1964.

Mr. Palmer: Yes.

Mr. LAFLAMME: Did you examine the bill where Canadian owned banks have to sell or get rid of some of the shares they may own in trust companies and other financial institutions?

Mr. PALMER: You mean in this present bill?

Mr. LAFLAMME: And down to 10 percent.

Mr. PALMER: Yes.

Mr. LAFLAMME: While clause 75 (2) (g) is going to allow you to keep up to 25 per cent of your block of shares? Do you think it would be either retroactivity or discrimination when the Canadian owned banks have to reduce to 10 per cent while you stay at 25 per cent.

Mr. PALMER: With all respect, those apply to different situations. The other banks are affected by the restriction on ownership of other companies, yes, but Mercantile is the only bank which would be governed by this 20 times authorized capital formula.

Mr. LAFLAMME: Yes; but did you ever ask the Canadian government to increase your authorized capital?

Mr. PALMER: No; we have not, as yet.

Mr. LAFLAMME: Thank you, Mr. Chairman.

The CHAIRMAN: Now I recognize Mr. Monteith.

Mr. MONTEITH: I have not entertained any questions as yet.

The CHAIRMAN: Oh, I am sorry. Mr. Cameron.

Mr. MONTEITH: I would like to be down for later.

Mr. CAMERON (*Nanaïmo-Cowichan-The Islands*): I would like to direct a question to Mr. Rockefeller, if I may, as the head of the First National City Bank of New York. I presume, Mr. Rockefeller, you wish to come into Canada with your operations in order to participate in the operations of the Canadian economy, to make money, shall we say, from the Canadian economy, and I am not criticizing you for that. Is this your purpose? Could you tell me in what way this differs from the position of a Canadian who goes to the United States and wishes to remain a Canadian, even as you wish to remain an American, but wishes to make some money by employment and finds himself heaved over the border back into Canada by the F.B.I.?

An hon. MEMBER: Or the R.C.M.P.?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, no. This is the other way. They are throwing us back in here. Is this not the same type of thing?

Mr. J. S. ROCKEFELLER (*Chairman, The Mercantile Bank of Canada and Chairman, First National City Bank*): I have a little difficulty in following you, Mr. Cameron.

Mr. CAMERON (*Nanaïmo-Cowichan-The Islands*): But you do have restrictions in your country, quite severe restrictions, much more severe restrictions on the operations of Canadian citizens in the United States than we have on the operations of American citizens in Canada. This is notorious, it is very well known.

Mr. ROCKEFELLER: I will not argue it with you, I am very familiar with it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could you tell me this, Mr. Rockefeller? Do you know of any way in which a Canadian bank could enter the business of banking in the United States with the same privileges that you have come here to demand from the Canadian parliament?

Mr. ROCKEFELLER: I am most familiar with the New York situation. The Canadian banks operating in New York have more privileges than the state banks or the national banks operating in New York. They have more, not less.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is not exactly the answer to my question, Mr. Rockefeller. As I am sure you are aware, what you are asking for is the usual powers and privileges of a Canadian chartered bank which is, to operate throughout the whole country, to establish as many branches as you want to. Can you tell me, is it possible for a Canadian bank to receive that sort of treatment in the United States under existing American legislation?

Mr. ROCKEFELLER: Yes; they have to get permission of the authorities to do so, just as we would in our own country.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Permission from what authorities?

Mr. ROCKEFELLER: The Comptroller of the Currency, the State Banking Superintendent, and the Federal Reserve Board, and the F.D.I.C. probably.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are you telling me, Mr. Rockefeller, that these federal agencies have the power to authorize a Canadian bank to operate in the state which prohibits foreign banks from operating in it?

Mr. ROCKEFELLER: Just a minute. Have the federal authorities what—?

Mr. CAMERON (*Nanaïmo-Cowichan-The Islands*): Have the federal authorities the power to permit a Canadian bank to operate in a state of the American union which prohibits foreign banking?

Mr. ROCKEFELLER: I did not know there were any such states. I do not pretend to be a lawyer. I am just a banker. We have a lawyer here. May I ask him?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. ROCKEFELLER: Mr. Harfield, are you here?

Mr. HARFIELD (*Counsel, First National City Bank*): Well, answering your question, Mr. Cameron, as best I can, the present law in the United States leaves to each of the states the right to accept or not to accept bank establishments, and in a sense, leaves to each of the states the same right with respect to banks organized in the United States. There is in prospect, and it has been introduced in congress, federal legislation which would apply on a national basis and which probably would override any state limitations.

I am not aware of any particular prohibitions by a particular state against any doing business. Certainly, so far as I know, there is no restriction on the ownership of locally incorporated banks. That is to say, if a Canadian group, or a Canadian bank, chose to seek a charter, whether a national charter or a state charter, there would be no restrictions on their ownership itself or on the bank ownership itself in any state.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We have had evidence before the Committee that there are states of the American union which do prohibit foreign owned banks to operate.

The CHAIRMAN: Mr. Cameron, I think perhaps, first, it would be useful if the person who has just spoken would identify himself, and secondly, if he will draw up a chair. Now, I think for the record you should identify yourself, sir.

Mr. HARFIELD: My name is Henry Harfield. I am a lawyer.

The CHAIRMAN: From where?

Mr. HARFIELD: From New York; I am not admitted to practice in Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Our lawyers will see to that.

The CHAIRMAN: We have a lot of lawyers here who are not admitted to practice. They do not start out that way but after the years, certain expertise develops in these parliamentary circles. Are you affiliated with a firm or are you a sole practitioner?

Mr. HARFIELD: No, I am a member of the firm of Sherman and Stirling.

The CHAIRMAN: Mr. Harfield, if I may just intrude for a moment, are you familiar with the report made by Dr. Zwick of the United States before the Joint Economic Committee—

Mr. HARFIELD: Yes, I am. I have read that.

The CHAIRMAN: —of the United States Congress. Well, sir, in the light of your last question I would like to direct you to footnote 2 at the bottom of page 1 of the Zwick memorandum which reads as follows:

> In at least one instance non-United States residents have obtained a charter to establish a subsidiary national bank in the United States. In accordance with the provisions of the National Banking Act, all the directors of this bank are United States citizens and the lending limits are governed by the equity capital invested in the subsidiary by the foreign owners. Because of these and other provisions in the act which was originally intended to apply to domestic bank applicants, virtually all foreigners regard the establishment of a subsidiary national bank as an unattractive instrumentality for entering the American market.

Mr. HARFIELD: Do you wish me to comment on that, sir?

The CHAIRMAN: Yes.

Mr. MACALUSO: Mr. Chairman, on a point or order. I believe the Chair had asked Mr. Laflamme to question, and unless Mr. Laflamme is finished, I do not know why the Chair—

The CHAIRMAN: Mr. Macaluso, if you do not mind, please, actually we had moved on to Mr. Cameron, and you have just lately come on to the Committee and perhaps you are not familiar with the procedure we have followed.

Mr. MACALUSO: I would like to find out what it is, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I gave the Chairman permission to intervene with a question of his own. He asked me for permission.

Mr. MACALUSO: I said Mr. Cameron, however, I did not hear whether he had said anything before that.

The CHAIRMAN: I suggest that we shall not have interruptions which are not based on a knowledge of the detailed method we have worked out for eliciting information from our witnesses. Perhaps members who have just come on to the Committee will consult with their colleagues to see whether or not they are noticing something which is not ordinarily found by the Committee.

Mr. MACALUSO: Mr. Chairman, I do not intend to sit here and take that from the Chair. I will say very frankly that I meant Mr. Cameron and not Mr. Laflamme, but at the same time it seems odd to me that a procedure is set out under which the Chair is doing all the questioning and the members are sitting here who have raised their hands in order. I understand the procedure of the parliamentary committees has been that the Chair waits until the other members are completely finished.

The CHAIRMAN: I have not as yet begun asking all the questions. It is obvious from your comments that it will not be necessary.

Mr. MACALUSO: I trust that if I can—

The CHAIRMAN: Mr. Macaluso, I might say that at the very least you will accord me the same respect that you expected from others on the transportation committee when you were presiding.

Mr. MACALUSO: They asked questions before the Chair did, Mr. Chairman.

Mr. HARFIELD: Let me start with a direct reference to the Zwick report. The National Bank Act in the United States provides for the organization of banks under federal charter. This parallels the system by which each of the 50 states may charter their own banks. We call this in the United States the dual system of banking. A prospective investor, therefore, has an option whether he chooses the federal system which results in his having a national bank or whether he elects to have a charter under one of the 50 states. The Zwick comment was directed to national banks. The National Bank Act requires that the directors of a national bank be citizens of the United States. It imposes no restrictions on ownership of stock in a national bank so that so far as the federal law in the United States is concerned, a foreign bank or group of foreign individuals may own, and some of them do, all the stock of a national bank. They must, it is true, elect as their representatives and as the ones who manage and have the responsibility for running the bank, United States citizens. This has to do with the composition of the board and not with the ownership of the bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have a further question. Under the National Bank Act, is it possible for a bank to operate a branch banking system throughout the United States in the same way a Canadian chartered bank can operate throughout Canada?

Mr. HARFIELD: No, sir, not under the present law.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is not possible to get the same privileges that you people are asking for here in Canada?

Mr. HARFIELD: It is possible to get the same privileges that are available under American law. We do not have quite the scope that you have in Canada

with respect to the country-wide system of banking. We are still somewhat more fragmented in this regard. It is possible however to obtain exactly what any American group can obtain in the United States.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But that is all?

Mr. HARFIELD: Yes, that is all.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We have had some reference made to the meeting that was held with the former minister of finance the hon. Walter Gordon on July 18, 1963 and which was attended, I believe, by Mr. Rockefeller, Mr. Elderkin, Mr. Bryce—

Mr. HARFIELD: And Mr. MacFadden.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And Mr. MacFadden, too. I have before me a sworn statement by the Inspector General of Banking.

The CHAIRMAN: Mr. Cameron, I think I should intrude here. I do not think it is a sworn statement. I think it is a memorandum prepared by Mr. Elderkin.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, a memorandum prepared by Mr. Elderkin in which he quotes you, Mr. Rockefeller, as saying this.

> Mr. Rockefeller said that the National City had made an arrangement with the shareholders of Mercantile to acquire the shares of the latter bank but that no firm commitment had been made.

Could you comment on that?

Mr. ROCKEFELLER: Yes, I am very glad to indeed. When Mr. MacFadden and I returned to New York after that same meeting I dictated a memorandum—I do not know what compelled me to do it—outlining my recollections, and Mr. MacFadden did the same thing with regard to his recollections. We did this completely independent of each other. It was very clear in my mind, and I think I was doing the talking at that point, that we had made a contract with the Dutch people. However it is obvious that I did not get that message across to the Canadian people present. Let us say, there was a breakdown in communications. I think the best answer is that the facts speak for themselves. The contract had been made and has been introduced as evidence. Those are the facts. It is obvious that as I was talking they did not understand me. I did not get the message across, which I unfortunately regret.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Rockefeller, can you tell me the purpose of your visit to Ottawa? Was it to interview the Canadian authorities?

Mr. ROCKEFELLER: Yes, ordinary courtesy, to inform them what we were doing. We were not required to do this, but we did so out of ordinary courtesy.

Mr. BASFORD: Surely your agreement of June 26 required you to do so.

Mr. ROCKEFELLER: I do not want to get into an argument with you, but I do not think we had to. It was courtesy to do so.

Mr. BASFORD: The fifth line of your agreement requires you to do so.

The CHAIRMAN: Order, please. It is our custom not to accept supplementaries in the course of questioning unless the questioner yields.

Mr. BASFORD: My apologies, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You can deal with Mr. Basford later. You say you had come as a matter of courtesy.

Mr. ROCKEFELLER: Yes, what we considered as a matter of courtesy.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I find that a little difficult to understand, Mr. Rockefeller. You must have been aware, or your advisers must have been aware, of the growing debate that was going on in Canada at that time of the whole question of foreign ownership. You surely must have been aware that the minister of finance at that time, Mr. Gordon, had very strong views on the subject and had written a book about it. It seems a little difficult to believe that you did not think you would meet some opposition in Canada.

Mr. ROCKEFELLER: May I comment, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. ROCKEFELLER: I do not intend to speak for Canadians, but my impression was that back in 1963, when we made this visit, this question had not reached the stage of heat or publicity that it has today. I had never heard that Mr. Gordon had written a book until he told me so at that meeting. My apologies to Mr. Gordon, but I do not read every book that is published. I would have no way of knowing whether Mr. Gordon was speaking for Mr. Gordon or whether Mr. Gordon was speaking for you, gentlemen, or the parliament or the Prime Minister. I did not know for whom he was speaking.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are you not aware, Mr. Rockefeller, that a member of the Canadian cabinet speaks for the government when he speaks?

Mr. LAMBERT: When does he deliver a budget in his office?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not quite get that comment, but surely when you were contemplating entering the Canadian scene you and your advisers would have made yourselves fully acquainted with the state of public opinion in Canada as well as the economic state of affairs in Canada.

Mr. ROCKEFELLER: We made ourselves familiar with the state of the law to the best of our ability. We consulted Canadian counsel as well as our own counsel.

Mr. LAFLAMME: May I ask a supplementary question at this point. Before seeing Mr. Gordon, had you met anyone else here?

Mr. ROCKEFELLER: No. Mr. MacFadden called—I had seen that Mr. MacFadden had called on Mr. Rasminsky and, of course, I have seen Mr. Rasminsky at bankers' meetings, and world bank meetings, and things like that.

Mr. LAFLAMME: Did you, in fact, Mr. MacFadden, meet Mr. Rasminsky four or five weeks before you met Mr. Gordon?

Mr. MACFADDEN: At my request. I communicated with Mr. Rasminsky and asked for an appointment with him in order to talk privately and this I did on the 20th of June, as I recollect. As soon as we knew that the Dutch owners of the Mercantile Bank intented to sell their shares we had to know whether or not it would be lawful for us to buy them. We ascertained that it was perfectly lawful under Canadian law for us to buy this stock and that no permission of any

Canadian government authority was required. I am advised that that is still an accurate statement of the law. In the context we had to assume that the views of individuals with regard to the proposed transaction, however highly placed they might be, were expressions of personal attitudes. In fairness to Mr. Rasminsky, he at no time suggested—

Mr. LAFLAMME: On a point of order, Mr. Chairman. I think the witness is reading his answer. I did not tell him that I would be asking this question.

The CHAIRMAN: It probably shows how Mr. MacFadden became a vice-president of the National City Bank. I think that under those circumstances he should be able to give the answer he has in mind. If it goes well beyond the ambit of your question, then you can make the appropriate comment.

Mr. MACFADDEN: At no time did Mr. Rasminsky suggest that the proposed acquisition was in violation of the Canadian law.

The CHAIRMAN: Did he advise you to see the minister of finance?

Mr. MACFADDEN: He recommended that I report the progress of negotiations to him and eventually to the minister of finance. The commitment to purchase was made on June 26, and signed in Rotterdam on that date. On July 2, following the July 1 holiday, I communicated this fact to Mr. Rasminsky and subsequently to the minister of finance in the company of Mr. Rockefeller.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You had not met, Mr. MacFadden, with the minister of finance before July 18?

Mr. MACFADDEN: No, I had never met the minister of finance.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Did Mr. Rasminsky not suggest that it might be advisable to see him before you proceeded?

Mr. MACFADDEN: As I say, he asked me to keep him informed of the negotiations and he suggested that we return to see him when the deal was firm, and I told him that we would return to see him when the deal was firm and it was at that time. I would suggest that we see the minister.

Mr. LAFLAMME: Did Mr. Rasminsky tell you to see Mr. Gordon before doing anything else?

Mr. MACFADDEN: This took place almost four years ago and it is a little difficult to recollect the wordings of the private conversation with the governor. In reply to his question I said that we would certainly keep him informed and that we would return when we had a firm deal. At that point the negotiations were proceeding rather rapidly and within six days we reached an agreement with the Dutch.

Mr. LAFLAMME: How did it happen then that five or six weeks passed before you saw Mr. Gordon. You are saying that the negotiations were going ahead rapidly, but at the time you saw Mr. Gordon you intimated to him that there were no firm commitments.

Mr. MACFADDEN: As Mr. Rockefeller tried to explain, this agreement, having been signed in Rotterdam on the 26th, and the agreement having been brought back to us in New York, when we did call on the minister of finance through the appointment arranged by Mr. Rasminsky we went to see him with the knowl-

edge that we were committed. As Mr. Rockefeller pointed out, during the course of conversation we apparently did not make this fact clear.

Mr. LAFLAMME: Why not?

Mr. MACFADDEN: That is a question I cannot answer. We apparently did not make it clear.

The CHAIRMAN: When did the United States Federal authorities give approval to this transaction?

Mr. CLERMONT: Mr. Chairman, with due respect to the Chair, you refused a supplementary to Mr. Basford before.

The CHAIRMAN: Oh no, I did not refuse a supplementary.

Mr. CLERMONT: Certainly you did.

The CHAIRMAN: He asked several questions and they were answered.

Mr. CLERMONT: Up until now the Chairman and the Vice-Chairman have asked supplementary questions. I did not hear Mr. Cameron yield to either you or Mr. Laflamme.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes I did, Mr. Clermont.

Mr. CLERMONT: But you did not do it very loudly.

The CHAIRMAN: Mr. Cameron, have you finished?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have finished for the time being, Mr. Chairman.

The CHAIRMAN: I think Mr. Bachand was to supplement the answer to this last question.

(*Translation*)

Mr. BACHAND (*Director, the Mercantile Bank of Canada*): Mr. Chairman, I am a Director of the Mercantile Bank since March, 1963. I would like to say, as a matter of fact, that for some months the owners of the shares, the Dutch, were trying to find purchasers for their shares. Never, at any time, did either the Governor of the Bank of Canada, or the Minister of Finance, ask the Dutch not to sell to this or that purchaser, or ask the Americans not to buy, when they found out that negotiations were afoot.

(*English*)

Never, never were the Dutch told to sell to this one or that one, and never were the Americans told not to buy or not to purchase.

The CHAIRMAN: Were you in Mr. Gordon's office?

Mr. BACHAND: I was not in Mr. Gordon's office, but I want to say, Mr. Chairman, that until the time of the negotiations, in all fairness, that the law stood as it is, and as it still stands; and I believe that there are some Canadians who believe in the supremacy of parliament, that the law is the law unless it is changed by an act of parliament—

An hon. MEMBER: That is what we are discussing now.

Mr. BACHAND: Yes, but it was not changed at the time, Mr. Chairman, and I wanted to make that point.

The CHAIRMAN: Have you a question, Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, I have finished for now; I have questions on the other issues later.

The CHAIRMAN: I recognize Mr. Munro followed by Mr. Clermont. We are dealing with the issue of retroactivity.

Mr. MUNRO: Mr. Chairman, I think this aspect of the retroactivity is one that seems to be bothering most of us, and it seems to be bothering the gentlemen that are before us this morning. In a preface to my question, it would be my impression that if a Minister of the Crown advised you, Mr. Rockefeller, and your associates, when you were with him, I believe on July 18th, 1963, that the Canadian Government would not look favourably upon your acquisition, then this considerably weakens your argument with respect to retroactivity. You are served, in fact, with an intention on the part of the Canadian government to take all necessary legal actions to prevent this type of dealing. But, we come back to that conversation, which took place on July 18th, and Mr. Cameron asked some questions about it. You indicated—Mr. MacFadden did also—that apparently there was a break down in communications and you did not get through to Mr. Gordon that a firm deal had been made by you. Is that a correct statement of yours?

Mr. ROCKEFELLER: It must be, yes.

Mr. MUNRO: Well, I think it has been established, certainly to my satisfaction, that a memorandum was prepared by Mr. Elderkin, who was also present at the meeting I believe, Mr. Bryce, the then Deputy Minister of Finance, of the conversation of what took place at your meeting. It was shown to Mr. Gordon and there was a consensus between them that this was the sum and substance of your meeting. So that it would appear that you failed to communicate also with Mr. Bryce and Mr. Elderkin as well as Mr. Gordon. You failed to get through to them that a firm deal had been made.

Mr. ROCKEFELLER: That is a reasonable assumption on the basis of what they say.

Mr. MUNRO: Do you not think it seems somewhat strange that three gentlemen, who I believe the same day took a memorandum of your discussion, hold the firm opinion, substantiated in a memorandum written on the same day, from my understanding of it, that in fact you had stated that no firm deal had been made; and fact that you had gone on to say, to paraphrase, if you like, Mr. Gordon's comments too, that if you proceeded you proceeded at your own peril.

Mr. ROCKEFELLER: I put those words in his mouth.

Mr. MUNRO: You put those words in his mouth. Did you say that?

Mr. ROCKEFELLER: Yes, I remember saying those words, and he nodded his head and said yes. He did not use those words; I used those words. I remember very well.

Mr. MUNRO: Well that is a rather peculiar statement for you to make, to say "If we proceed, we proceed at our own peril"; yet today you say that you had already proceeded and had a firm commitment.

Mr. ROCKEFELLER: May I make a comment?

The CHAIRMAN: Mr. Rockefeller.

Mr. ROCKEFELLER: A few minutes before that the Minister of Finance at that time made the statement that the charters of the Canadian Banks came up for renewal every 10 years, and that the next go-around a renewal under these circumstances might not be allowed. That is the context of the "do it at your peril" business, as I recall it.

Mr. MUNRO: You are suggesting then that the Canadian government would indicate approval of your activities and then wait to get you at a later time on the renewal. Is that what you are suggesting?

Mr. ROCKEFELLER: There was no question of our legal right to act at that time. Mr. Gordon never raised that point. He did raise the the point that when the charter came up for renewal he might recommend that it not be renewed. He is leaving us out on the end of a limb.

Mr. MUNRO: Mr. Rockefeller, if I may continue, I still fail to see how your comment "if we proceed we proceed at our own peril" would fit into that context, having already proceeded and already having had a firm deal. Would it not be a superfluous remark in that context?

Mr. ROCKEFELLER: Remember, this was a conversation. This was not a document being prepared for legal scrutiny. We never thought we would be back here arguing. This was a recollection—I mean this was an informal document of recollection. It was not prepared by a lawyer; it was prepared by me, a bank clerk.

Mr. MUNRO: Well I would like to be a bank clerk like you, Mr. Rockefeller.

The CHAIRMAN: Perhaps you will tell him how you did it.

Mr. MUNRO: Mr. Rockefeller, another aspect of this bothers me a little bit. In answer to Mr. Cameron you suggested that you were not aware that Mr. Gordon had written a book.

Mr. ROCKEFELLER: Please convey my apologies.

Mr. MUNRO: I certainly will. I believe your official capacity with the National City Bank is the Chairman of—

Mr. ROCKEFELLER: Chairman, period. We simplified it.

Mr. MUNRO: All right. Prior to this discussion and prior to your meeting with Walter Gordon, I think perhaps the height of the discussion on the question of foreign ownership took place in Canada. Previous to this time, a very contentious budget was introduced.

An hon. MEMBER: Most of which was drawn off.

Mr. MUNRO: —yes, some of which provisions dealt with foreign ownership. Mr. Gordon was the Minister of Finance at the time. As chairman of the National City Bank of New York, and presumably having some eye to the financial situation in Canada, were you completely unaware of the provisions of this proposal in Mr. Gordon's budget?

Mr. ROCKEFELLER: Believe me or not, I was; I was completely ignorant. Now I am sure our Canadian counsel and Mr. MacFadden, who has handled our Canadian business for years and years prior to this purchase, were familiar with it; I was not.

Mr. MUNRO: Did Mr. MacFadden, if I may word this loosely, as your representative or man in Canada, at any time fill you in and give you any background on the Canadian scene prior to your meeting with Mr. Gordon. Did you not discuss his views at all?

Mr. ROCKEFELLER: Well, basically, we at the bank in New York had been looking for a possibility of coming to Canada because we are believers and had been for a long long time in your country, and we had been exploring ways of doing banking business in Canada just the way we do in many other places. And undoubtedly—I do not remember it—the man whose judgment on whom we would rely very very heavily was Mr. MacFadden because he is the one most familiar with our Canadian business. He has been running our Canadian business for—How many years?—10, 15 years?

Mr. MACFADDEN: 20 years.

Mr. ROCKEFELLER: 20 years.

Mr. MUNRO: It just seems a little incomprehensible to me that you would not be advised of the view of Mr. Gordon, the Minister of Finance.

Mr. ROCKEFELLER: I am sure we were. I was not, but I am sure the others were.

Mr. MUNRO: It seems incomprehensible that you had not been advised prior to your meeting with Mr. Gordon. But I accept that as the case.

Mr. ROCKEFELLER: When I came up I was told Mr. Gordon was an accountant.

Mr. MUNRO: Is that all?

Mr. ROCKEFELLER: About all, yes; that he came out of an accounting firm as an accountant.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And you are a bank clerk?

Mr. ROCKEFELLER: Yes. I was told he was a very nice gentleman. I have a brother who knows him well, he has been fishing with him, or something.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary question of Mr. MacFadden?

The CHAIRMAN: Certainly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. MacFadden, you told us that you have been handling the National City Bank's business in Canada for 20 years.

Mr. MACFADDEN: Since 1945.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I presume you keep a fairly close eye on Canadian political developments. Were you not aware that the election in 1963 was fought, in very large measure on the question of foreign ownership? In fact, this was the cry with which Mr. Gordon—

Mr. MONTEITH: We were blamed for being anti American in 1963.

The CHAIRMAN: Mr. Cameron is putting forth in this question his assessment of the situation which we may or may not agree with.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Certainly I was under the impression that everybody else in Canada knew that Mr. Gordon was making his bid for power in the Liberal Party on the basis of opposition to continued expansion of foreign ownership in Canada. As a candidate in that election I had no doubts about that. Seriously, did you not appreciate the seriousness of this question on the political scene?

Mr. MACFADDEN: Well having spent part of my time travelling about this fine country and having more friends in Canada than—I thought I had more friends here—than I have in the United States, I believe that I consider myself reasonably well-informed on the atmosphere in the various provinces and in the federal government.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well then did you advise your superiors in New York of the dangers of the course of action they were taking?

Mr. MACFADDEN: I did not anticipate the dangers that have ensued. Let me come back to the comment that Mr. Rockefeller made—and I thought he made it fairly clearly—that we were legally committed under an enforceable contract and that we voluntarily came to see the two individuals in the Canadian government who are highly placed. We voluntarily came to let them know what we were doing. We have nothing to hide, and we like to tell our friends what we are doing before they hear about it from gossip, rumours or someone else. This bank was for sale; people were bidding for this bank, and we bought it.

The CHAIRMAN: Are you finished, Mr. Munro?

Mr. MACALUSO: Mr. Chairman, may I ask a supplementary on this?

The CHAIRMAN: That is up to Mr. Munro.

Mr. MUNRO: Yes, one.

Mr. MACALUSO: I would like to go back to Mr. Basfords' supplementary on line 5 of the memorandum or the agreement of June 26, 1963.

The CHAIRMAN: Is this your supplementary or Mr. Basford's?

Mr. MACALUSO: It is my supplementary. I quote:

> Subject to the approval of our Boards of Directors and of all the governmental authorities concerned, . . .

Who did the parties envisage as being the governmental authorities, which government?

Mr. MACFADDEN: This memorandum of agreement was written in Rotterdam, not by a lawyer but with the full knowledge at the time that these words were concerned with two governmental authorities whose subsequent approval would be required.

Mr. MACALUSO: Which governmental authorities, Mr. MacFadden?

Mr. MACFADDEN: The Central Bank of the Netherlands—the Nederlandsche Bank—under their exchange control to permit the Dutch owners to sell these shares.

Mr. MACALUSO: All the parties had in mind was that it was the United States government—

Mr. MacFadden: The Federal Tariff Board and the Central Bank of the Netherlands.

Mr. Macaluso: Whether this was prepared by a lawyer or not really does not matter; you signed the agreement.

The Chairman: I might remind the Committee that we ordinarily give members approximately 20 minutes for each period of questions. Naturally there are many people asking questions and, as I say, we have developed the practice of letting members, in their period of questions, decide on whether or not to permit supplementaries.

Mr. Macaluso: I thank Mr. Munro for my one question.

Mr. Munro: I would like to carry on. I understood Mr. MacFadden to say, through you, Mr. Chairman, that he met with the Governor of the Bank of Canada sometime prior to his meeting with Mr. Gordon, at which time Mr. Rockefeller was along. I believe you said it was sometime in June.

Mr. MacFadden: That is correct.

Mr. Munro: About a month previous?

Mr. MacFadden: June 20, about a month previous yes.

Mr. Munro: And that would be prior to what you considered a firm deal at the time you met with Mr. Gordon?

Mr. MacFadden: That is correct.

Mr. Munro: That would be prior to the deal being firmed up. And I believe Mr. Cameron or some other member of the Committee asked you whether the Governor of the Bank of Canada had suggested that you should see the Minister of Finance and discuss the matter with him.

Mr. MacFadden: He did make that suggestion.

Mr. Munro: Did he suggest to you why you should do that?

Mr. MacFadden: I cannot quote Mr. Rasminsky at this point. As I said a few minutes ago, my visit to the governor was at my request for a private interview to inform him that this bank was for sale, that we knew it was for sale and that we were negotiating to buy it.

Mr. Munro: Mr. MacFadden, at the time you saw the Governor of the Bank of Canada, you were certainly aware of the then Minister of Finance's view on the question of foreign ownership, were you not?

Mr. MacFadden: That is a rather broad term.

Mr. Monteith: It could be the minister pulled out most of what went in the budget.

Mr. Munro: Did you have any knowledge at all as to whether he looked favourably upon foreign ownership of Canadian interests?

Mr. MacFadden: I was well aware of—although I was living in London for the five years when the Commission report of 1957 was published and obviously I was busy on other matters at the time, but I was aware in general of Mr. Gordon's economic views.

Mr. MUNRO: Would it be reasonable for you to expect that he might not look too favourably upon this when you went to see him at a subsequent time?

Mr. MACFADDEN: I should say that I was completely taken aback and quite dismayed at his perception to our substitution for the Dutch as owners of a Canadian charter bank.

Mr. MUNRO: At any rate, after seeing Mr. Rasminsky, the Governor of the Bank of Canada, and after hearing his suggestion to see the Minister of Finance, prior to seeing him you went out and made a firm deal. Is that not what you are saying?

Mr. MACFADDEN: I did not make the deal.

Mr. MUNRO: Your interests made the deal.

Mr. MACFADDEN: That is right. The negotiations moved very quickly.

Mr. MUNRO: Prior to seeing the then Minister of Finance?

Mr. MACFADDEN: That is correct.

The CHAIRMAN: And after you saw the Governor of the Bank of Canada?

Mr. MACFADDEN: That is right.

Mr. MUNRO: So actually the only purpose, as Mr. Rockefeller said, in seeing the Minister of Finance sort of after the fact, was because it was a matter of courtesy? Was that the sense in which Mr. Rasminsky suggested that you see the Minister of Finance?

Mr. MACFADDEN: I cannot interpret what Mr. Rasminsky had in his mind; all I can say is that my impression from the meeting was that he wished to be kept informed and to come back to him when the deal was firm. It told him when the deal was firm I would come back to him and see the Minister of Finance at that time. It was not possible to see the Minister on July 2; we could not arrange an appointment with him until July 18.

Mr. MUNRO: I think that is all, Mr. Chairman.

(*Translation*)

The CHAIRMAN: I now give the floor to our colleague, Mr. Clermont.

Mr. CLERMONT: To one question put by Mr. Cameron to Mr. Rockefeller, the answer was that the Canadian Bank agencies in the State of New York have more privileges than the American Banks. In what respect, Mr. Rockefeller?

Mr. ROCKEFELLER: I understand French, sir.

(*English*)

Mr. CLERMONT: It is quite all right if you reply in English.

Mr. ROCKEFELLER: If you will excuse me, I will reply in English.

The big Canadian banks in New York City operate there as agencies at their choice. They are not subject to the reserve requirements that we are subject to. For every deposit we take, we have to keep a certain percentage with the federal reserve bank. The Canadian agencies are not subject to that. There are many regulations of the Federal Reserve Board: the amount on what you can pay interest and things like that, to which they are not subject.

(*Translation*)

Mr. CLERMONT: Do the Canadian bank agencies in the State of New York have the right to solicit deposits from New York State residents?

Mr. ROCKEFELLER: Not in the State of New York, but, I think, in the other states and foreign deposits also.

Mr. CLERMONT: In the Memorandum of Agreement submitted to the Committee one reads: "subject to the approval of our Boards of Directors, etc.". When did your bank obtain authority from the Federal Reserve Bank to conclude such a transaction?

(*English*)

Mr. ROCKEFELLER: Whenever we go into a new country, that is subject to their approval. As in this case, we make the arrangements and then they have the right of veto; they could veto it.

Mr. CLERMONT: You are not obliged to get their approval before?

Mr. ROCKEFELLER: No, but the contract as such was subject to that and if they said no, we would not be obligated to the Dutch. That was a question someone else raised in the contract.

Incidentally, if I may amplify on this—and tell me if I am out of order: I was in on all the negotiations between our people who are in Rotterdam and our people who are in New York; every time there was a phone call I was informed, if I was not one of the parties to the phone call. That was the intent of that document which Mr. Richardson was talking to me about; it was with the Dutch authorities and the Federal authorities. We did not know there was a Canadian problem; we were not thinking of the Canadian part.

(*Translation*)

The CHAIRMAN: Mr. Clermont, if you will allow me, I would like to ask a question of Mr. Rockefeller.

(*English*)

I would like to know the date on which a consent was obtained firstly from the Dutch Central Bank and secondly from the United States Federal Reserve Authorities to this transaction being completed.

Mr. ROCKEFELLER: I have no knowledge whatsoever even if any Dutch authority was required. I do not have the date of the Federal Reserve approval, but I am sure we have it in our files. Do you have it there?

Mr. MACFADDEN: It was August 29, 1963.

The CHAIRMAN: August 29, 1963.

Mr. MACFADDEN: That is the date of the Federal Reserve approval.

The CHAIRMAN: That is 1½ months after the Gordon meeting?

Mr. MACFADDEN: That is right.

The CHAIRMAN: Not 1½ months but 1 month and 10 days.

Mr. ROCKEFELLER: That answers your question because if we had to have prior approval we would have been breaking the law, which we do not try to do.

(*Translation*)

Mr. CLERMONT: Mr. Rockefeller, had your bank shown an interest in carrying on banking transactions in Canada, in another way than applying to the Canadian Parliament for a charter.

Mr. ROCKEFELLER: For five years, for ten years we had been attempting, we asked questions about whether we could obtain a charter.

Mr. CLERMONT: Did you not show some interest, Mr. Rockefeller, in your bank setting up in Canada as a branch only.

Mr. ROCKEFELLER: If we had our choice, we would prefer to have a branch, it is much simpler.

(*English*)

Mr. CLERMONT: Mr. Rockefeller, can a group of non-residents or a foreign bank obtain a charter for a national bank in your country?

Mr. ROCKEFELLER: May I ask Mr. Harfield.

Mr. CLERMONT: Certainly.

Mr. ROCKEFELLER: He says "yes" and they have.

Mr. CLERMONT: How many?

Mr. HARFIELD: I cannot give you the statistics on it, Mr. Chairman. I know of at least one or two in New York and I believe that there are others which are based in other states.

Mr. CLERMONT: According to Mr. Zwick's report, which appeared in the *National Banking Review* it states:

> The first is that no foreigner can obtain a charter for a national bank by virtue of the restrictions imposed on ownership and control of a national bank by the law.

How many states prohibit foreign banking within their borders?

Mr. HARFIELD: How many states in the United States?

Mr. CLERMONT: Yes.

Mr. HARFIELD: I am not aware of any states which have an actual prohibition. There are a number of states which do not accept, through an absence of any permission to come in, the branches or perhaps even agencies of foreign banks. I am not aware of any which exclude foreign ownership of stock.

Mr. CLERMONT: Again I will quote from Mr. Zwick's report, in which you do not seem to have much confidence:

> At present eight states specifically prohibit foreign branch banking.

The names are Connecticut, Delaware, Illinois, Minnesota, New Jersey, Rhode Island, Texas and Vermont.

Mr. HARFIELD: I will not deny that. As I said earlier, I am not admitted to practice in Canada and I should add as a supplementary answer that I am not admitted to practice except in the State of New York, so I will therefore accept Mr. Zwick's interpretation of the laws of the other states. I am quite certain, however, that so far as the National Bank Act is concerned, and whether or not

other foreign banks own the stock, there are national banks which are foreign owned, and the reluctance perhaps of some of the foreign banks to have as subsidiaries in the United States, a national bank is not that there is any legal restriction, but that they are required to have as directors of that subsidiary United States citizens instead of their own people. I believe that is what Professor Zwick says in his report: that there were complications, but there were not any prohibitions.

Mr. CLERMONT: Does the United States have a policy for a national bank; if so, would you describe to this Committee what is the policy of a national bank in the United States?

Mr. ROCKEFELLER: Are you talking about our banks in our own country?

Mr. CLERMONT: Yes.

Mr. ROCKEFELLER: A national bank is one that operates under a charter of the Federal Government isued by the control of the currency in Washington.

Mr. CLERMONT: Mr. Rockefeller, I am sorry; I am speaking about non-residents or foreign banks. Does your country have a national policy for foreign banks to operate as a banking institution in the United States on a national basis. I am not speaking about states because, if my information is correct, most of the foreign banks in the United States are in the state of New York and in the state of California.

Mr. ROCKEFELLER: I think you are correct.

Mr. CLERMONT: Especially in New York City and San Francisco.

Mr. ROCKEFELLER: You are correct. I do not think our federal authorities would permit a foreign bank to operate in 50 states because they do not allow the banks of their own country to do that. They allow foreign banks the same privileges, but not further privileges.

Mr. CLERMONT: I understand, Mr. Rockefeller, that at least 40 states in your country have no banking regulations in respect of foreign banks.

Mr. ROCKEFELLER: I am not familiar with the laws, I will defer to lawyers when we come to that again.

(*Translation*)

Mr. CLERMONT: The Mercantile Bank of Canada, in its brief claims that clause 75 (2) (g), discriminates only against its bank, but what do they think of the Western Bank which received a charter from the Canadian Parliament last fall and which has more than 50 percent of its shares in the hands of one person or one group of associated persons. Would not this new bank also, if the Canadian Parliament adopts Bill C-222 and Clause 75 (2) (g), have to submit to the same legislation?

Mr. ROCKEFELLER: I thought the question was being addressed to you Mr. Chairman. Was I wrong? We are talking about the Canadian Bank Act.

The CHAIRMAN: Although I would be happy to answer that question, I think some of the other members of the committee would prefer that you do it, sir.

Mr. LAMBERT: Mr. Chairman, how can the witness answer in respect of a legal obligation of the Bank of Western Canada under the new proposed act.

The CHAIRMAN: Although I think there is something to that, there is a more serious objection that might be raised to the question; and while I think it could be phrased in a way that would be in order particularly if Mr. Rockefeller asked some of his professional advisers to deal with it, I think the committee agreed to deal firstly with the submissions of the Mercantile people, that the proposed law is retroactive, and that after exhausting our questions on that subject we would move on to their views regarding the proposals being discriminatory. Now it is true that I have permitted a certain latitude.

Mr. CLERMONT: Mr. Chairman, on a point of order, if clause 75 (2) (g) is retroactive for the Mercantile Bank of Canada, it will also be retroactive for the Bank of Western Canada; then why should he be allowed to make a comparison between the two when this gentleman claims that they are the only ones discriminated against.

The CHAIRMAN: I think, Mr. Clermont, that you have, in the same question, covered two separate topics, although in quite a clever fashion—and I compliment you for the way you have done it. I think that in so far as you wish to ask at this time whether or not the proposals with respect to the Mercantile Bank are not retroactive and so on, this is in line with the order of business we agreed upon at the opening of the meeting. If we are going into detailed questioning on the issue of possible discrimination, then I think we are going to a topic which we should reserve for later consideration during these particular hearings. Perhaps you gentlemen may attempt to answer Mr. Clermont's question in the spirit in which he has posed it, which fits in with our agenda.

Mr. ROCKEFELLER: Can I call on Mr. Clifford; he knows more about the Bank of Western Canada than I do.

Mr. STEWART B. CLIFFORD (*Executive Vice President and General Manager, The Mercantile Bank of Canada*): Mr. Clermont, I think you have an interesting point. Our contention is that clause 75(2)(g) applies to us and to us alone, as far as retroactivity is concerned. In the case of the Bank of Western Canada, the intentions of the government were clearly known prior to the time that they obtained their charter. In other words it is prospect—looking forward and not looking back, and this is another of our arguments.

Mr. LAMBERT: Mr. Chairman, may I say that the provisions and restrictions in the charter of the Bank of Western Canada were introduced at the direct request of this committee, and then under section 57 the Treasury Board was empowered to defer this limitation on share ownership for ten years. They are operating quite legally under their own charter and under the act as it now exists.

Mr. CLERMONT: Mr. Chairman, I did not know that Mr. Lambert was appearing for the bank as a witness.

Mr. LAMBERT: Mr. Chairman, I would like to make a comment, just the same as Mr. Clermont did, on the nature of the law.

Mr. MACALUSO: Mr.Chairman, I would like to know what right Mr. Lambert has over Mr. Basford as far as intervening is concerned.

Mr. CHAIRMAN: Since Mr. Clermont is usually quite prompt to bring to our attention derogations from our rights as members and did not intervene, I

assumed, perhaps wrongly and if so I apologize, that he was accepting this as subsidiary comment. I think that your point is well taken, Mr. Macaluso, and we should return the floor to our colleague, Mr. Clermont, so he can continue with his questions.

Mr. CLERMONT: Mr. Chairman, would this be a proper time to ask the officials of the Mercantile Bank what their assets and so on were or will I have to wait for another time? For instance, Mr. Chairman, I would like to ask what the assets of the Mercantile Bank were on June 26, 1963. If this question is not allowed at the moment I will ask it later.

The CHAIRMAN: I think that your question is relevant to the issue of retroactivity.

Mr. CLIFFORD: Any figures you want are absolutely available to you.

The CHAIRMAN: You should be careful about that.

Mr. CLIFFORD: We operate on the basis that anything we do we are prepared to see on the front page of the New York *Times*. That is the way we conduct our affairs. Sooner or later it happens.

Mr. LAMBERT: Mr. Chairman, Mr. Clermont, on the point of order, if that is the case, could we have the figures that have been omitted from the memorandum of agreement.

The CHAIRMAN: It is the custom of this committee not to discuss points of order from those who are merely attending and not in the position of regular members. However, it may well be that another member may raise this question in due course.

Do you have the figures, Mr. Clifford?

Mr. CLIFFORD: What was the date, Mr. Clermont?

Mr. CLERMONT: What were the total assets of the Mercantile Bank on June 26, 1963.

Mr. CLIFFORD: I can give you June 30.

Mr. CLERMONT: All right.

Mr. CLIFFORD: $83,937,000. At the year-end, September 30, it was $125,449,000.

Mr. CLERMONT: What was the figure . On October 31, 1964?

Mr. CLIFFORD: Here again, I will have to give you September 30, 1964; $124,852,000.

Mr. CLERMONT: I understand that on October 31, 1965 they were $222 million.

Mr. CLIFFORD: Yes, that is right.

Mr. CLERMONT: And on October 31, 1966 $224.5 million.

Mr. CLIFFORD: That is right.

Mr. CLERMONT: And what was the paid up capital of the Mercantile Bank on June 26, 1963?

Mr. CLIFFORD: It was $4 million capital paid in and $1 million rest account.

Mr. CLERMONT: Four million capital and one million reserve?

Mr. CLIFFORD: Rest account.

Mr. CLERMONT: I understand it is now $10 million.

Mr. CLIFFORD: Eight million paid in and $2 million rest account.

Mr. CLERMONT: Two million is rest account?

Mr. CLIFFORD: Right.

Mr. CLERMONT: Thank you, Mr. Chairman.

The CHAIRMAN: Mr. Clermont, would you mind if we just repeat those dates. Your first question related to June 26, 1963.

Mr. CLERMONT: Right, the date that the agreement is supposed to have been signed.

The CHAIRMAN: And they provide a figure at June 30, of $83 million. Did you give a figure for October 31, 1964.

Mr. CLERMONT: One hundred and twenty four million.

The CHAIRMAN: Do you have a figure for, let us say, May 31, 1965?

Mr. CLIFFORD: Or June 30, it was $171,424,000.

The CHAIRMAN: And the capital.

Mr. CLIFFORD; At that time it was $8 million paid in, $2 million rest account.

The CHAIRMAN: Thank you. The next name on my list is Mr. Wahn.

Mr. WAHN: Mr. Chairman, I would agree completely with what Mr. Palmer said in his opening statement, namely that generally I am not too concerned who said what to whom at that particular meeting with Mr. Gordon. But in fairness to Mr. Rasminsky I would like to ask a supplementary question with regard to what he has stated to have said to Mr. MacFadden.

I can quite understand how at that meeting with Mr. Rasminsky, he might well have intended to say to you Mr. MacFadden, to keep in touch with him as your plans further developed, and when they developed further to come back to him or to Mr. Gordon. I find it very difficult to believe that he intended to tell you or to advise you to go out and firm up an irrevocable deal and only after you had firmed up an irrevocable deal, to come back and talk to Mr. Gordon about it. I would just like to clear that this was not what you meant to imply and that you were not proceeding in accordance with Mr. Rasminsky's advice when you deferred your visit to Mr. Gordon until after you had firmed up an irrevocable deal. I find it very difficult to believe that Mr. Rasminsky would give anyone that advice.

Mr. MACFADDEN: I think that is a correct statement, Mr. Wahn. As I recall it, the suggestion that Mr. Rasminsky did make to me was to come back and keep him informed as to the negotiations; I cannot remember his exact words, but the inference was to come back to see him again and report and to seek the views of the Minister. My response to that was that I would do so when we had a firm deal. Now if I may just digress one moment. When a buyer and a seller are in the process of negotiating the terms of a deal, the seller to sell and the

buyer to buy, obviously when you leave the negotiating table, that must be recorded and signed by the parties concerned, subject to subsequent ratification where necessary. If we leave the negotiating table without committing ourselves, the deal is gone and we have no opportunity.

Mr. WAHN: I would like to put this further question to Mr. MacFadden, Mr. Chairman. Mr. Palmer has indicated that he was aware of course that for many, many years we have had in Canada decennial revision of the Bank Act. We consider this a very valuable feature of our banking system; I do not know whether or not you have it in the United States.

Mr. MACFADDEN: We do not, no. I do not know any other country where there is a decennial revision.

Mr. WAHN: In your submission, Mr. MacFadden, you indicated that you felt that clause 75(2)(g) was unfair because it was retroactive and in effect was changing the rules in the middle of the game. In the banking game, for many, many years before First National City became interested in Canada, we in Canada have adopted the policy of thoroughly reviewing the rules of the banking game every ten years. You were aware of that fact as well as Mr. Palmer.

Mr. MACFADDEN: Certainly.

Mr. WAHN: You knew that we were going to review thoroughly and if necessary or desirable change the rules of the game at the next decennial revision.

Mr. MACFADDEN: I would like to make one comment here. I think, Mr. Wahn, you might recall that the charter which was granted by parliament in 1953 to the Mercantile, to the Dutch interest, was about a year or more just before the revision of the Bank Act in 1954.

Mr. WAHN: Yes.

Mr. MACFADDEN: And the Bank Act revisions in 1954 did not deny the continuance of charters.

Mr. WAHN: No.

Mr. MACFADDEN: Obviously we had no supposition or no way of having any feeling, in respect of a legally-chartered bank operating within the laws of Canada and in business here for 10 or 12 years, as long as their behavior was correct that the charter would not be legal because of the change of ownership.

Mr. WAHN: Yes, I can understand that. But notwithstanding that fact, you came into Canada, and in Canada, for a very lengthy period of time, we have reserved the right to review the rules of the banking game every 10 years. The next review was in 1964.

Mr. MACFADDEN: It just so happened the Dutch made up their minds to sell the bank early in the fall of 1962; that just happens to have been decided before the revision of the Bank Act.

Mr. WAHN: Yes. You completed the deal for the acquisition of Mercantile then in 1963.

Mr. MACFADDEN: That is correct.

Mr. WAHN: So if I can follow your own metaphor through, you bought the Mercantile ball team in the ninth inning, as it were.

Mr. MacFADDEN: That is correct, but we did not expect to strike out.

Mr. BASFORD: I wonder if I might be allowed a supplementary question. As I understand it, Mr. MacFadden, you told Mr. Wahn that you never for a moment thought that your charter would not be renewed at the decennial revision.

Mr. MacFADDEN: That is correct.

Mr. BASFORD: I understood Mr. Rockefeller to explain earlier this morning that his words "they proceeded at their own peril" referred to the possibility that the charter would not be renewed at the revision.

Mr. MacFADDEN: That is correct.

Mr. BASFORD: Well, you have just said it was never in your mind that it would not be renewed.

Mr. ROCKEFELLER: Will you gentlemen let me answer that one?

The CHAIRMAN: Definitely.

Mr. ROCKEFELLER: We are talking about two different points in time.

Mr. BASFORD: It seems to me we are talking about the same thing.

Mr. ROCKEFELLER: Yes. Well, when we bought the bank Mr. MacFadden and the rest of us had every expectation that on good behavior, like everywhere else once you had a license it continued and the renewals were pretty much automatic, referring to parliament. It was only subsequently, in our conversation with Mr. Gordon, that there was the first intimation that the rug might be pulled out from under our feet. There was a time lapse there. There is no conflict; there is a time lapse—two different sets of circumstances at two different times.

Mr. BASFORD: Two weeks apart.

Mr. ROCKEFELLER: Yes. It was really a shocker. You were there and you, being a Canadian, expected it; but it was a shock to us when that statement was made.

Mr. BASFORD: Which statement?

Mr. ROCKFELLER: That the charter might not be renewed; however, the words were not that blunt.

Mr. WAHN: Mr. Chairman, the point that I am trying to elicit is simply this: Historically in Canada we have reserved the right to change the rules of the banking game every 10 years—

The CHAIRMAN: We have changed them from time to time.

Mr. WAHN: —and we have in fact changed them. I think there are arguments both ways as to whether the particular change we are now contemplating which, in effect, says that no one—no resident no non-resident—shall own more than 25 per cent of the shares of a chartered bank. That is the general policy behind the proposed revision.

An hon. MEMBER: Ten per cent.

Mr. WAHN: Well, whatever the percentage may be. There are arguments as to whether that is sound, and I think it is the purpose of this Committee to go into those arguments; but surely no one questions the right of Canada as a

sovereign state in accordance with decennial reviews which has carried on for years and years, to review the rules governing the operation of chartered banks in Canada every 10 years. Under that interpretation it seems to me that the position of Canadians would be that National City bought into Mercantile in the ninth inning—they bought the ball team in 1963—knowing the rules of the game were going to be revised in 1964. From my point of view, I find it absolutely impossible, disregarding completely what was said in conversations with Mr. Gordon and Mr. Rasminsky—and I think arguments of that sort tend to generate heat rather than to diffuse light. I think we should concentrate on what I think is the basic principle, namely, the right of the Canadian parliament as a sovereign legislature to review the rules of the banking game—and it insists upon this very jealously—which has enabled us to avoid a lot of detailed regulation of banking activities which might otherwise be required.

So, National City bought into Mercantile in the ninth inning and was entitled to one further inning of play under the old rules. Actually, Mr. MacFadden, is it not true that you not only completed your ball game but in addition, due to the dilatory nature of our proceedings, you have had two actual innings of play—

Mr. MacFadden: I hope you are not blaming that—

Mr. Wahn: —under those rules. I, as a Committee member, find it extremely difficult to understand how anyone could allege, with fairness, that this legislation is retroactive. I can see why you could say that it is undesirable; but that is another question.

Mr. MacFadden: Mr. Wahn, since this fringes on the legal side I am just going to ask Mr. Palmer who, I think, is more familiar with Canadian law than I to comment further. I might say that in the ninth inning there were about five other banks standing in line to buy that bank, and we were not going to lose it.

Mr. Palmer: Mr. Chairman, might I comment on Mr. Wahn's remarks?

The Chairman: Yes.

Mr. Palmer: My only comment would be that the decennial revision of the Bank Act—which we all knew about in prospect—always has applied to every bank, not to one bank alone and that is the point that we are objecting to.

Mr. Wahn: Mr. Chairman, if I may intervene there, that takes us into the next question: whether the change is discriminatory. To the extent that Mr. Palmer has now abandoned the allegation of retroactivity, I am quite happy—and I think he has.

Mr. Palmer: No, I have not, Mr. Chairman and Mr. Wahn, but you made such a point in referring to the fact that the Bank Act is reviewed and revised every 10 years, that I felt that while I am impinging on the next phase of the discussion, I did want to interject the remark that the decennial revision is a general revision that applies to all banks. That is my only point in speaking now.

The Chairman: You have no other comment in reply to the specific point raised by Mr. Wahn?

Mr. Palmer: About abandoning the retroactivity argument? No, I am not abandoning it.

Mr. WAHN: Mr. Chairman, my remarks were directed solely toward the retroactivity argument. I have some questions with regard to the discriminatory allegation, but they will come later.

The CHAIRMAN: It is now 12.55 p.m. and so as not to interrupt what I am sure will be a very useful exchange of questions, I suggest that the Committee agree that we recess at this point until 3.45.

This Committee stands adjourned.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I think we are in a position to resume our meeting. When we recessed for lunch I believe Mr. Wahn had the floor. Had you completed your questioning, Mr. Wahn?

Mr. WAHN: I had no other questions with regard to retroactivity.

The CHAIRMAN: The next name on my list is Mr. Chrétien, followed by Mr. Lind and Mr. Flemming. I will recognize Mr. Chrétien at this time.

(*Translation*)

Mr. CHRÉTIEN: Mr. Chairman, I would like to direct one or two questions to Mr. Rockefeller. I notice that you emphasize in your brief that this legislation would have a retroactive effect against the Mercantile Bank because the owners were American.

I would like to mention that the present legislation is forcing Canadian banks to sell the shares they have in trust companies when their interests are over 10 percent of the total stock. Is this not the same way of proceeding as in the case of the Mercantile Bank?

(*English*)

Mr. ROCKEFELLER: I was just trying to follow the translation.

Mr. CHRÉTIEN: I just want to ask you if you agree that the principle in the present bill that is being applied to the Mercantile is the same as is being applied to Canadian banks in that asking them to sell their shares in trust companies. Do you agree that it is about the same thing? Do you agree that it is usual?

Mr. ROCKEFELLER: I am not familiar with the trust company matter. I have been primarily interested in the Mercantile matter. When you come to the Mercantile matter, our position is only that we should be treated in just the same way that the Canadian banks are treated. If you treat them one way, treat us the same way because we are a Canadian bank.

(*Translation*)

Mr. CHRÉTIEN: Why is it so unpleasant for you to be obliged to sell 75 percent of your shares? After all the publicity surrounding the present dispute, do you not agree that there are not many Canadians who are not aware of the Mercantile Bank of Canada and that 25 percent of this institution which has become suddenly famous, is certainly worth more than 100 percent of a small bank which was unknown in 1963?

(*English*)

Mr. ROCKEFELLER: My answer to that question is that at this point we do not have anything that we could sell to anyone at any price?

Mr. CHRÉTIEN: Why?

Mr. ROCKEFELLER: Because an axe is over our heads.

The CHAIRMAN: What kind of axe?

Mr. ROCKEFELLER: We do not know if we are going to be in business.

Mr. CHRÉTIEN: If you sell 75 per cent of your shares you will still be in a good position and you are better known now that you were a few years ago.

Mr. ROCKEFELLER: Yes; I am sure of that.

The CHAIRMAN: One of the courtesies of the finance committee.

(*Translation*)

Mr. CHRÉTIEN: Do you not agree, Mr. Rockefeller, that imposing these restrictions on the Mercantile Bank, we are doing justice to the other American banks who would like to do business with Canada in the future and on the same footing as the Mercantile Bank.

(*English*)

You said this morning that there were five banks interested in coming to Canada.

Mr. ROCKEFELLER: I did not say that. It may be true.

Mr. CHRÉTIEN: Somebody said that.

Mr. ROCKEFELLER: I did not say that.

The CHAIRMAN: I believe it was Mr. MacFadden.

Mr. CHRÉTIEN: Was it Mr. MacFadden? Well, then I have a question for Mr. MacFadden. The former minister of finance informed the House of Commons, on June 14, 1965, that Mr. MacFadden and Mr. Moquette, who was then President of Mercantile, had called on him about ten days after the meeting of July 18, 1963, to inform him that the purchase deal had been completed. How does this fit in with the testimony given this morning that the purchase had been completed prior to July 18, 1963? If the purchase had been completed before July 18, what was the reason for a second meeting?

Mr. MACFADDEN: The reason for the second meeting was to advise the Minister that we had appreciated his time and his views but that we felt that we had to honour our commitment to our Dutch friends and we would conclude the transaction.

Mr. CHRÉTIEN: It was not completed before, then?

Mr. MACFADDEN: In our testimony this morning we tabled in the Committee the binding contractual agreement which was entered into with the Dutch in Rotterdam on June 26, 1963. We were not able to arrange an appointment with the Minister prior to July 18. The reason for coming back at the first convenient opportunity was to inform the Minister of our obligations to honour our commitment.

Mr. CHRÉTIEN: You had not informed him at the first meeting that the commitment was completed.

Mr. MACFADDEN: We thought we had, but there was a misunderstanding in communication. That was why we mentioned it this morning.

Mr. CHRÉTIEN: Why did you come back if you had that in mind?

Mr. MACFADDEN: Of course, the contractual agreement with the Dutch of June 26 was a binding and an enforceable agreement in court and we could not avoid completing our commitment.

The CHAIRMAN: What was the date of the second meeting that Mr. Chrétien referred to?

Mr. MACFADDEN: July 29, if my memory is correct.

The CHAIRMAN: That is—

Mr. MACFADDEN: That is 11 days after the first meeting.

The CHAIRMAN: That is a month before you received federal reserve approval.

Mr. MACFADDEN: That is correct. July 29 was the date of the second meeting and I was accompanied by Mr. Moquette.

The CHAIRMAN: If Mr. Chrétien will permit me, I would like to suggest—

Mr. MONTEITH: Apparently he permitted you last time; I gather he would again.

Mr. CHRÉTIEN: I wil permit you retroactively.

The CHAIRMAN: And in a non-discriminatory fashion and non-punitive, too. At the time of the second meeting, since you have told us you had not received federal reserve approval, you could not have enforced that agreement with the Dutch, according to the terms of the agreement itself?

Mr. MACFADDEN: That is a legal question and like Mr. Rockefeller I am employed by a bank and I am not a lawyer. May I ask Mr. Harfield to answer that question?

Mr. HARFIELD: It could have been enforced.

Mr. ROCKEFELLER: The Dutch could have enforced it against us.

The CHAIRMAN: What was the date of the Dutch approval?

Mr. ROCKEFELLER: When did they sign the contract?

The CHAIRMAN: When did the Dutch central bank approve?

Mr. MACFADDEN: We do not know the date of that but obviously they had the approval, otherwise they could not have sold the bank.

The CHAIRMAN: But when did they get it?

Mr. MACFADDEN: I do not know. We were told they had it but I do not recall—

The CHAIRMAN: When was this deal closed, the formal exchange of shares, and so on?

Mr. MACFADDEN: September 30, 1963.

The CHAIRMAN: So that they could have received approval after the second meeting and any time up to September 30, 1963. Is that not right?

Mr. MACFADDEN: I am afraid you would have to ask the Dutch.

Mr. ROCKEFELLER: I think it is a fair assumption.

The CHAIRMAN: So it is quite possible that at the time of the second meeting this agreement would not have been enforceable in any court, either in Canada, the United States or Holland.

Mr. MACFADDEN: Our counsel advise us that it was legally enforceable.

The CHAIRMAN: Let us hear the counsel.

Mr. HARFIELD: Yes; I regarded that as a final agreement and I understood that approval by the Dutch had been given, although I am free to say I cannot tell you today when that approval was given, or who told me that it had been given.

The CHAIRMAN: Would you not agree, sir, that this agreement on its face is "subject to the approval of our boards of directors and of all the governmental authorities concerned"?

Mr. PALMER: There are only two.

The CHAIRMAN: There are only two. Until the approval of the two government authorities concerned were obtained, then the agreement would not have been put in the position to be fully executed.

Mr. PALMER: I do not entirely agree with that, Mr. Chairman. The ratification or approval by governmental authorities, when given, would relate back to the time of the signing of the contract, and the contract could have been enforced against one party without necessarily being enforceable against the other party.

The CHAIRMAN: When?

Mr. PALMER: I do not know.

Mr. MONTEITH: Might I ask a supplementary?

Mr. CHRÉTIEN: Yes, I am almost the Chairman.

Mr. MONTEITH: Would it not be reasonable to assume that both parties had made their application to the Dutch Government and to the Federal Reserve Board some time prior to the granting of such approval?

Mr. ROCKEFELLER: Yes; in our case in the United States, it takes the federal six weeks to two months to approve.

Mr. MONTEITH: So your application for approval had gone in some considerable time before?

Mr. ROCKEFELLER: Yes; that can be determined, but we do not happen to have the date with us. That can be determined because that is an official document that is filed in Washington. If it is desired, we can easily determine that date.

The CHAIRMAN: Mr. Palmer, are you suggesting to the Committee that before the approval of the Federal Reserve Board had been obtained, even though the application had been made, this agreement could have been enforced in the courts?

Mr. PALMER: By whom?

The CHAIRMAN: Tell us, either way.

Mr. PALMER: I would say yes, it could have been enforced.

The CHAIRMAN: By whom?

Mr. PALMER: By the Dutch.

The CHAIRMAN: Even if they had not obtained the approval of their own central bank?

Mr. PALMER: I should say, Mr. Chairman, that this agreement is not a Canadian contract. It is between a United States corporation and a Dutch corporation so, I think, I will have to bow to Mr. Harfield, to follow Mr. Rockefeller's pattern. The subject matter was Canadian—shares of a Canadian bank—but it was between two foreign entities.

Mr. ROCKEFELLER: Regardless of the legality of the contract, or its enforceability, we had consummated a deal with our Dutch friends and had committed ourselves to buy the shares and they sell them to us. It is not the practice of the management of the First National City Bank to welsh on a contract.

The CHAIRMAN: Even though you are forbidden by a law of your own country to go on with the contract?

Mr. ROCKEFELLER: We are not forbidden.

The CHAIRMAN: You did not know that at the time.

Mr. ROCKEFELLER: No, we did not know.

Mr. CHRÉTIEN: Was the second meeting you had with the Minister of Finance in July, 1963, another courtesy call? Why were there two courtesy calls in the same month if you felt you had no obligation to him?

Mr. MACFADDEN: I would say that second call was a matter of information to the Minister.

Mr. CHRÉTIEN: The first one was a courtesy call and the second one was to impart information. I have no more questions.

Mr. ROCKEFELLER: Mr. Chairman, on the question you raised, if the Federal Reserve Board had disapproved this, we could not have gone ahead with the contract. We could not have executed and exchanged cash for shares. They had the power of veto. I do not think there is any question about that.

The CHAIRMAN: On August 29 you did not know whether the power would be exercised?

Mr. ROCKEFELLER: No, we may have had verbal say so, but the official document was whatever Mr. Harfield said when we received the official approval.

The CHAIRMAN: Thank you.
I will call on Mr. Lind followed by Mr. Flemming.

Mr. LIND: Mr. MacFadden, when you first visited the Governor of the Bank of Canada in what capacity were you working then? Were you working for Mercantile or were you working for the First National City Bank?

Mr. MacFadden: I was an officer of the First National City Bank.

Mr. Lind: Then you were working under the Board of Directors of the Citibank?

Mr. MacFadden: That is correct.

Mr. Lind: At that time, when you received the opinion of the Governor of the Bank of Canada and discussed the change in ownership of Mercantile, did you report that conversation back to your Board of Governors or the board of Citibank?

Mr. MacFadden: I reported it to Mr. Rockefeller and to Mr. Wriston my two senior colleagues.

Mr. Lind: On being advised by Mr. Rasminsky that you should interview the Minister of Finance, you now say that you consulted or informed Mr. Rockefeller of this decision. When did you endeavour to see the Minister of Finance?

Mr. MacFadden: Just as soon as we possibly could, following my advice back to Mr. Rasminsky that we had concluded our deal with the Dutch.

Mr. Lind: You are sure you had concluded your deal with the Dutch at that time?

Mr. MacFadden: On June 26, in Rotterdam, the agreement was signed which was tabled this morning.

Mr. Lind: But Mr. Rasminsky advised you to see the Minister of Finance before that time, did he not?

Mr. MacFadden: Yes, it is my recollection that it was suggested that we keep him informed of the negotiations and to come back and see him at a later date and at the same time it would be wise to see the Minister.

Mr. Lind: Then the board went ahead and consummated the deal with the Dutch without bothering to make it a point of visiting the Minister of Finance beforehand?

Mr. MacFadden: As I said earlier, the negotiations were moving rather rapidly and it was just not feasible, within the few days that elapsed between the 20th and 26th of June, to try and see the Minister.

Mr. Lind: If you did not feel it was advisable to see the Minister, you cannot very well say that he was discriminating against you in any way, can you?

The Chairman: Mr. Lind, I think in all fairness to our witnesses, they have been asked to direct their replies at this stage toward the issue of retroactivity. Also, in fairness to the other members of the Committee, whom I precluded from asking questions on the issue of discrimination, perhaps you might want to rephrase your question.

Mr. Lind: In all fairness to the Minister of Finance, Mr. MacFadden, you did not make too great an effort to see him before July 18?

Mr. MacFadden: We made a great effort to see him immediately following July 2 but it was not possible to arrange a meeting until the 18th.

Mr. Lind: I would like to ask Mr. Rockefeller a question. He was most helpful in giving us figures this morning about the growth of the Mercantile Bank from its start in 1953; the assets were $83 million in 1963. Is that correct?

Mr. ROCKEFELLER: Those are the figures that Mr. Cliffort reported to you and that is my recollection of the figures.

Mr. LIND: By September 30, 1965, they had increased to some $222 million. Is that correct?

Mr. ROCKEFELLER: That is correct, sir.

Mr. LIND: I think you made the statement, Mr. Rockefeller, that you did not mind revealing any figures to this Committee.

Mr. ROCKEFELLER: No, I do not. That is true.

Mr. LIND: Mr. Rockefeller, would you then reveal the dollar amount of losses for each year, 1962, 1963, 1964 and 1965?

Mr. ROCKEFELLER: We will, if the proper people want it.

The CHAIRMAN: I think Mr. Lind is a proper person to have this information.

Mr. LIND: That is me, I am a member of the Committee and I have asked for it.

Mr. ROCKEFELLER: All right, we will get them for you. I do not know what they are.

Mr. LIND: You would not want to give them out now? You do not have them with you?

The CHAIRMAN: Again, in fairness to both the witness and the other members of the Committee, unless you can relate your question at this stage to the issue of retroactivity, perhaps I might ask you to hold it off until a later stage.

Mr. ROCKEFELLER: The information is available to you if you want to have it. It is not being withheld from you.

Mr. LIND: I would request those figures, if I may have them; I would like to see them for comparison purposes.

I have one further question. Bill No. C-222 does not prevent you from renewing your charter under this new Bank Act, does it?

Mr. ROCKEFELLER: It has not until now.

Mr. LIND: You are not being prevented from renewing your charter under Bill No. C-222?

Mr. ROCKEFELLER: That is correct.

Mr. LIND: Thank you.

The CHAIRMAN: I think I can repeat what Mr. Rockefeller has asked me. He has no objection to giving the loss figures to the Committee for their private study of the points raised by the Mercantile Bank and the Bank Act in general, but I suppose he has some concern about the exchange of competitive information.

Mr. ROCKEFELLER: Yes, we do not give this to our competitors or to the general public. If you need the figures for making your judgments you are welcome to them.

Mr. LIND: I am going on the statement you made this morning, Mr. Rockefeller.

Mr. ROCKEFELLER: That is all right; we will stick by our statement.

Mr. LIND: That is fine, thanks.

The CHAIRMAN: I think we will reserve the final disposition of this until we get to a further stage in our proceedings.

I would like to recognize at this point, if you are finished Mr. Lind, Mr. Flemming, followed by Mr. Lambert, Mr. Monteith, Mr. Basford, Mr. Gilbert and then Mr. Thompson. If you gentlemen being of the same party, wish to go in a different order from that which I have outlined, and agree amongst yourselves otherwise, certainly I have no objection.

Mr. FLEMMING: Mr. Chairman, my question is to Mr. Palmer. In the course of Mr. Palmer's remarks this morning he stated that he was appearing primarily as a Canadian citizen rather than as a general counsel for the Mercantile Bank. In that category, I am impressed by what he has to say—about what any Canadian citizen has to say—in connection with the problems before the Committee, I would like to ask Mr. Palmer this question. He mentioned his concern, as a citizen, in connection with both the question of discrimination and retroactivity. While I acknowlege, Mr. Chairman, your admonition that we should confine ourselves to retroactivity, yet I am going to ask Mr. Palmer if he would mind giving the Committee his opinion of the relative importance of those two features, as a Canadian citizen, because that is the approach which he made in his remarks.

The CHAIRMAN: Mr. Flemming, perhaps you could do this in two stages. First, on retroactivity and then when we enter formally into the area of discrimination, which will be a major topic, perhaps he can address himself to that phase in a broader way than he might want to do at present. He might be a bit inhibited by my constant admonition about sticking to the issue of retroactivity.

Mr. FLEMMING: I dont mind.

Mr. PALMER: Mr. Chairman and Mr. Flemming, I am a little inhibited because this morning when I touched on the subject of discrimination in answer to a question from my friend, Mr. Wahn, he accused me of abandoning the ground of retroactivity. I am not abandoning either one.

I do not think you can really separate the two, in answer to your question. I do not place one on any higher degree of importance than the other. Was that your question?

Mr. FLEMMING: I was interested in your opinion of the relative importance of the two, but I might pose another question. My question deals with your statement that you hoped the Committee would view the matter in what you think this is the proper perspective and that clause 75(2)(g), if it were retained for the future, would include in it something of the nature of a cut-off date. I think this has something to do with retroactivity and, perhaps, you would like to elaborate.

Mr. PALMER: I think I would have no objection, and I do not think my colleagues would have any objection, if clause 75(2)(g) were made to speak from that date in September, 1964, when the then Minister of Finance made what I think was his first published or public statement regarding foreign ownership, and his wishes and intentions in the field of legislation dealing with

foreign ownership. That would preserve the Mercantile Bank from this retroactive application of clause 75(2)(g). It would apply to any new foreigners coming in, but it would allow us to continue to operate with the same freedom that is accorded to the other Canadian banks. I would like to emphasize the point that this is really an appearance by the Mercantile Bank of Canada, which is a Canadian bank, and of necessity the issues of foreign ownership, who is First National, when did they make a deal, and so on, become mingled with the other concept, but we are here as a Canadian bank asking for the same treatment which other banks receive.

Mr. FLEMMING: Mr. Palmer, have you any reason to think that the objectionable features which are included in the bill which we are studying would not have been included had the ownership of Mercantile remained where it was?

Mr. PALMER: I am not competent to answer that question, Mr. Flemming, because I really do not know. All I can say is that the Mercantile Bank had a foreign owner for some ten years, and the foreign owner was not interfered with by the government or by parliament or by any legislation whatsoever. It is perhaps reasonable to assume that if the Dutch had remained as owners this clause would not have appeared, but I do not know, I cannot express an opinion on the matter.

Mr. FLEMMING: Mr. Palmer, I presume that you consider clause 75(2)(g) to be unjust; otherwise you would obviously not be asking for its removal.

Mr. MACFADDEN: Mr. Flemming, Mr. Bachand, one of our directors, was a director of the bank in March of 1963 and for several months during the Dutch ownership. With your permission, sir, may Mr. Bachand add a few comments?

Mr. FLEMMING: I would be pleased if he would.

Mr. BACHAND: We had reasons to assume that it would not have applied to other people because of the tradition in the Canadian parliament. Whenever we had a case for exempting the Americans we did so. For instance, in the case of Time magazines and Reader's Digest we made an exception for the Americans and you will remember at that time Senator Hayden said that if you have a business that is established in Canada and is carrying on an operation in Canada, and has done so for some time, you are then going to change the ground rules to such an extent that that business may be put on terms under which it would have difficulty in carrying on such business in Canada. It is a bad principle to create the atmosphere abroad that at any moment when it suits our purpose, or the view of those who have authority, we can change the ground rules. The same thing was done with respect to the Broadcasting Act. Those Radio stations that were owned by foreigners were not treated retroactively, but they kept their licences. We did the same thing with respect to trust companies and insurance companies. We made an exception for the Americans. We let them stay. We did not make it retroactive.

Mr. CHRÉTIEN: There is no question of asking you to abandon your charter.

Mr. BACHAND: I am glad to hear that.

Mr. FLEMMING: This is my concluding question. I presume that you, in the light of the information which this gentleman has just given us, would consider that there has been a degree of suggested discrimination on account of a change in ownership?

Mr. PALMER: Yes, I would have to agree with that.

Mr. FLEMMING: That is all, Mr. Chairman.

Mr. LAMBERT: In your conversation with Mr. Raminsky on June 20 were any of the provisions of the then recent budget discussed with him as they might apply to the change of ownership or the sale of the Mercantile Bank interests to yourselves?

Mr. MACFADDEN: I do not recall any discussion of the budget. However, I have the very distinct impression that it was made quite clear by Mr. Rasminsky that our acquisition of the shares was not in violation of any Canadian law.

Mr. LAMBERT: I think you were quite well aware of what was proposed with regard to corporate holdings at the time. In the budget of June 13 Mr. Gordon had proposed that there be a 30 per cent take-over tax. This would not have applied to the Mercantile Bank because it was not a Canadian-owned corporation and it was not a public company.

Mr. MACFADDEN: That was my understanding.

Mr. LAMBERT: Yes. There was also Mr. Gordon's statement to the effect that they were going to discuss this with the provinces. In order to refresh your memory and that of the committee, at page 1006 of *Hansard* of June 13 the Minister is quoted as stating:

> It will be noted that this measure applies only to the shares of listed public companies. Measures are under consideration, and may be discussed with the provinces at an appropriate time, which will apply to all Canadian companies including private companies.

The Mercantile Bank is in the nature of a privately held company. Was any application of this budgetary intention discussed with Mr. Rasminsky?

Mr. MACFADDEN: Not to my recollection.

Mr. LAMBERT: Was it discussed about a month later with Mr. Gordon?

Mr. MACFADDEN: I do not recall any discussion on that point.

Mr. LAMBERT: Of course, you are aware that on June 19, six days after delivering the budget, Mr. Gordon withdrew all his budgetary proposals with regard to take-over tax and then subsequently, during the month of July, there were more and more items of that budget which seemed to disappear. Was it just during your verbal conversation that you discussed this proposed acquisition with Mr. Raminsky?

Mr. MACFADDEN: Yes, that is correct.

Mr. LAMBERT: How was he advised on July 2? Was it by letter or memorandum, or by word of mouth?

Mr. MACFADDEN: It was by telephone.

Mr. LAMBERT: Subsequently on July 18 was that communication mentioned at all in the interview that you or your associates had with Mr. Gordon, Mr. Bryce and Mr. Elderkin?

Mr. MACFADDEN: I recall no discussion of the conversation with Mr. Rasminsky.

Mr. LAMBERT: This is the point I am trying to make: was Mr. Gordon advised that you had notified Mr. Rasminsky that a contract had been executed?

Mr. MACFADDEN: I could not answer that because I was not—

Mr. LAMBERT: Oh, you were not present at that interview with Mr. Gordon?

Mr. MACFADDEN: Yes, I was present.

The CHAIRMAN: Mr. Lambert, let me see if I misunderstand this. The Rasminsky meeting was June—

Mr. LAMBERT: Well, let us get the witnesses, Mr. Chairman. The Rasminsky meeting was on June 20.

Mr. MACFADDEN: Yes.

Mr. LAMBERT: I am referring now to the July 18 meeting with the Minister, A meeting which was arranged at the request of the National City Bank and Mercantile Bank principals.

Mr. MACFADDEN: Yes. We advised the governor that Mr. Rockefeller and I would like to come up and see him and tell him of our plans, having advised him that we had a firm deal. It was not possible to see him immediately because of intervening vacations. It was not possible to get an appointment with the Minister until July 18, and this was arranged on July 16 by Mr. Rasminsky and reconfirmed to the Minister by me.

Mr. LAMBERT: At that meeting was any reference made to your communication—and I say "your" in that generic sense—to Mr. Rasminsky of July 2?

Mr. MACFADDEN: Not that I recall.

Mr. BACHAND: I may say I find that a little odd.

Mr. ROCKEFELLER: Perhaps I can clarify this. When we went to see Mr. Gordon he knew what it was all about. There was some question about whether we had made ourselves clear on whether the contract had been signed, but he knew we were coming to discuss the situation of the Mercantile Bank. Mr. Rasminsky had told him that. I do not know just how much he told him and what he told him, but Mr. Gordon knew what it was all about and he said that Mr. Rasminsky had spoken to him about this subject.

Mr. LAMBERT: Fine, we will get that information from the other people rather than by hearsay. Mr. Bachand rather overtook me on the comment I was going to make that at this time I found it rather odd that the Minister of Finance felt that he could Canadianize two very well known American publications, but that he felt he could not Canadianize an American-owned bank. I can assure you I intend to find out why there is a distinction.

Mr. MONTEITH: As we are discussing retroactivity at the moment, Mr. Chairman, I will try to lay out the context of the various meetings. First of all, the meeting of June 20 was with Mr. Rasminsky.

Mr. MACFADDEN: That is correct, at my request.

Mr. MONTEITH: Yes, at your request. This was to ask his advice concerning the legality of the move you were contemplating.

Mr. MACFADDEN: That entered into it, yes, but the primary reason for my visit was to inform Mr. Rasminsky that we—the First National National City

Bank—at that time had made the decision that we wished to have direct representation in Canada. We knew that the Mercantile Bank was for sale and we wanted him to hear directly from us, obviously on an off the record basis because negotiations between businesses are very sensitive and very confidential, that we were negotiating the purchase of this bank. In my conversations with Mr. Rasminsky I certainly had no question in my mind but that it was quite clear this was not a violation of any law of Canada at that time.

Mr. MONTEITH: Nor is it in violation of any law as of today.

Mr. MACFADDEN: Yes.

Mr. CLERMONT: Why did an official of the National City Bank go to see the Governor of the Bank of Canada rather than the Inspector General of Banks, who has the duty of supervision over the chartered banks?

Mr. MACFADDEN: Perhaps the purpose, Mr. Clermont, in going to Mr. Rasminsky was because he is the governor and the guide of monetary policy as it affects the banks, and I felt it was quite proper to go to him first.

Mr. CLERMONT: Thank you.

Mr. MONTEITH: Following this meeting with Mr. Rasminsky, as I think you intimated, things moved rather quickly and the agreement was signed on June 26 in Rotterdam. Mr. Rasminsky was notified of the completion of the deal by telephone on July 2.

Mr. MACFADDEN That is correct.

Mr. MONTEITH: You, at that time—or almost immediately following—attempted to get in touch with the Minister to make an appointment, which you finally succeeded in doing on July 18.

Mr. MACFADDEN: That is correct.

Mr. MONTEITH: Now, there was a subsequent meeting with the Minister which was discussed just a moment ago; what date was that?

Mr. MACFADDEN: July 29, 11 days later.

Mr. MONTEITH: Again, what transpired at that meeting?

Mr. MACFADDEN: I was accompanied at that meeting by Mr. Moquette, who was then the president of the Mercantile Bank of Canada.

Mr. MONTEITH: Yes.

Mr. MACFADDEN: We were joined at the meeting by Mr. Elderkin—my friend the inspector general here—and by Mr. Robert Bryce. The purpose of the meeting was to advise the Minister that we appreciated the time that he had given us and that we appreciated his view, but that we felt we had to honour our commitment to our Dutch friends.

Mr. MONTEITH: I think it was some time in September, 1964—it was mentioned a moment ago—that as far as you know the first public statement was made by the Minister of Finance of his intentions in this respect.

Mr. MACFADDEN: That was September 22, 1964.

Mr. MONTEITH: Yes. So your claim of retroactivity really goes back a year and 3 months, or thereabouts, in that you did complete your deal, and if there

were any foundation for the Minister's statement, which was not made public until September, 1964 as a matter of government policy, then as a consequence there is retroactivity in respect to this?

Mr. MacFADDEN: That is part of our contention.

Mr. MONTEITH: What other contentions do you have as to the matter of retroactivity?

Mr. MacFADDEN: In examining the subsequent legislation following Minister Gordon's announcement in the house on the evening of September 22, 1964, as I recall, he indicated to the house that the government would introduce legislation in the house with respect to acquiring control of companies in the financial community, mentioning life insurance companies, trust companies and loan companies, and that the legislation would be retroactive to midnight of that date. That is my recollection.

Mr. MONTEITH: That was midnight of September 22?

Mr. MacFADDEN: Of 1964, yes. He further added, as I recall from the *Hansard* record, that subsequent similar legislation would also be introduced in connection with the revision of the Bank Act. Now, in the subsequent legislation on this question of retroactivity, the foreign shareholdings of insurance companies, trust companies and loan companies that were in existence as of that date were not disturbed and not made retroactive. There are insurance companies and trust companies in Canada which are either majority-owned or wholly-owned by United States or other foreign interests, and those were not disturbed. On the question of the banks, as I interpret proposed Bill No. C-222 there is no retroactive attempt in the "50" clauses to force the liquidation of foreign holdings in banks as of that date, so that is not retroactive. The retroactive feature appears in this one small clause, which is retroactive when applied to the Mercantile Bank alone.

Mr. MONTEITH: Thank you.

The CHAIRMAN: I would like to recognize Mr. Basford, followed by Mr. Thompson and Mr. Davis.

Mr. BASFORD: I have just a few short questions, Mr. Chairman. Mr. Rockefeller mentioned this morning after his meetings with the Minister on July 18 that both he and Mr. MacFadden made memorandums of their discussions. I wonder if we could have copies of those memorandums?

Mr. ROCKEFELLER: Like everything else, yes, indeed.

Mr. BASFORD: They will be tabled with the Committee?

Mr. ROCKEFELLER: That is up to you gentlemen and the Chairman.

Mr. BASFORD: I would move, Mr. Chairman, that they be produced and tabled.

The CHAIRMAN: Any discussion on this motion?

Mr. CLERMONT: How many days after the July 18 meeting was the memorandum prepared?

Mr. ROCKEFELLER: The time?

Mr. CLERMONT: Yes, how many days after the July 18 meeting?

Mr. ROCKEFELLER: Either the same day or the next day, I forget which. That was the first thing I did when I got back to the office in New York.

Mr. CLERMONT: Did you have a rough trip from Montreal to New York?

Mr. ROCKEFELLER: It was a beautiful day and it was very smooth. I remember that it was a nice day. The Canadian Guards were playing out here in front.

Mr. CLERMONT: Mr. Chairman, I will second that motion on the ground that—

Mr. MONTEITH: I have already seconded it.

Mr. CLERMONT: All the papers will have it and this will give us a chance to look at it and to ask questions about it.

Mr. MACFADDEN: The papers do not have those memorandums.

Mr. CLERMONT: No.

The CHAIRMAN: Any further discussion on this motion? All those in favour of the motion that the Rockefeller memorandum be produced for the Committee?

An hon. MEMBER: And Mr. MacFadden's.

The CHAIRMAN: And Mr. MacFadden's.

Motion agreed to.

Mr. BASFORD: Do I have the chair, Mr. Chairman—rather, do I have the floor?

The CHAIRMAN: Well, I know as joint chairman of the special Committee on consumer credit you are quite used to having the chair, and I understand you occupy that post very competently. However, at this stage rather than having the chair I would say you have the floor.

Mr. BASFORD: Well, the chair and the clerk seemed somewhat preoccupied and I wondered if you wanted me to proceed.

The CHAIRMAN: I am just arranging for the distribution of this memorandum, but I would like you to proceed.

Mr. BASFORD: Thank you. How many times was this transaction, that is, the purchase of Mercantile by Citibank, dealt with by the board of directors of either Citibank or I.B.C.?

Mr. ROCKEFELLER: My recollection is that it was once. The management of the bank went to the board recommending it and the board approved it.

Mr. BASFORD: On July 16.

Mr. ROCKEFELLER: Whenever the papers say.

Mr. BASFORD: Yes. When was that directors' meeting arranged?

Mr. ROCKEFELLER: Our directors' meetings are regularly scheduled. The directors' meetings of the bank are held the first and third Tuesdays of every month; the board meetings of the I.B.C. are scheduled quarterly, or when anything else comes up. The business of I.B.C. is not as active as a bank, and therefore does not meet as regularly.

Mr. BASFORD: Well, the meeting on July 16 was a special meeting with the board, and I am wondering when it was arranged.

Mr. ROCKEFELLER: We can produce the minute book for you if you want it. We will find out. We can make a telephone call. It would be in the records of the I.B.C., but I do not carry it in my head.

Mr. BASFORD: I can appreciate that. Up until the meeting of the board on July 16, then, you had no indication from the Minister of Finance what he thought of this transaction?

Mr. ROCKEFELLER: No, I certainly did not. As I said this morning, Mr. Gordon's attitude was a shock to me; it was such a surprise. Neither was I familiar with the famous book at that time, you know.

Mr. BASFORD: No, as you explained this morning. I can appreciate that. Were any questions at the board meeting as to what the political reaction to this agreement would be?

Mr. ROCKEFELLER: No. We did not get this feeling of nationalism, or whatever you want to call it. We consider ourselves friendly neighbors.

Mr. BASFORD: Which we are. I say that from the bottom of my heart, Mr. Rockefeller.

Mr. ROCKEFELLER: No, it honestly did not cross our thoughts; it was not a factor. Obviously with hindsight we should have thought of it but it did not enter our minds.

Mr. BASFORD: Were there any reports filed with the board or given to the board on the transaction?

Mr. ROCKEFELLER: Yes, undoubtedly; there is always a recommendation.

Mr. BASFORD: Are they available?

Mr. ROCKEFELLER: I do not see why not.

Mr. BASFORD: Do they make any reference to the—

Mr. ROCKEFELLER: They would have the price in it, that is all.

Mr. BASFORD: Do they make any reference to discussions—

Mr. ROCKEFELLER: I am sure they would refer to this contract that was signed in Rotterdam that we have been discussing.

Mr. BASFORD: Yes. Would the recommendation make any reference to the discussions with the governor of the Bank of Canada or other governmental officials?

Mr. ROCKEFELLER: No, that was probably covered verbally and would not be in the minutes. We do not record those details in the minutes, it is not necessary.

Mr. BASFORD: Sir, I was not talking about the minutes; I was talking about reports or recommendations given to the board members.

Mr. ROCKEFELLER: I would have made them, and I do not recall.

Mr. BASFORD: Could you determine the answer to that?

Mr. ROCKEFELLER: No, because it is 4 years ago, and I do not remember what I said. If I do not, I am sure none of the board members would remember.

Mr. BASFORD: Nothing was put in writing?

Mr. ROCKEFELLER: No.

Mr. BASFORD: There is no transcript kept of the board meetings?

Mr. ROCKEFELLER: No. We have official minutes and that is all. All we put in the minutes of the meetings are the resolutions and minutes.

Mr. BASFORD: Why was the board meeting held on the 16th rather than the 19th, three days later, when you could have had an indication what the Minister of Finance in Canada thought of the deal?

Mr. ROCKEFELLER: I do not recall why the timetable was—

Mr. MACFADDEN: We did not know until the 16th that we would be meeting with the minister.

Mr. BASFORD: Pardon me, Mr. MacFadden?

Mr. MACFADDEN: We did not know until the 16th that we were meeting with the minister on the 18th, so the meeting was scheduled on the 16th.

Mr. ROCKEFELLER: Undoubtedly we wanted to get the resolution they wanted; they wanted a prompt resolution.

Mr. BASFORD: Might I suggest you also wanted to present the Minister with a *fait accompli.*

Mr. ROCKEFELLER: No, that was—

Mr. MACFADDEN: That had already been done on June 26.

Mr. ROCKEFELLER: No, there was no conniving or planning to that effect.

Mr. BASFORD: No it had not, because the agreement made on June 26 was subject to approval by your board.

Mr. MACFADDEN: I do not know the legal term on the approvals, Mr. Palmer, whether we refer to them as subsequent approvals or what we call them. The agreement was still a matter of a binding agreement.

Mr. PALMER: Oh, yes, and the approvals would relate back to the date of the agreement.

Mr. ROCKEFELLER: I was there for Mr. MacFadden and my recollection is that as soon as the arrangement was made we asked Mr. Rasminsky to make an appointment with Mr. Gordon just as soon as he could and we would come up. He was busy and we may have been busy, and it was hard to arrange the appointment. We were at his disposal immediately and it was unfortunate that there was that two week gap, but it just happened that way.

Mr. MUNRO: Mr. Chairman, with Mr. Basford's permission may I ask a supplementary question or intervene with a question? On this general point that Mr. Basford is discussing, Mr. Rockefeller, I notice in the agreement—and this was referred to this morning—at the fourth line down it reads:

> Subject to the approval of our Boards of Directors and of all the Governmental Authorities concerned...

Now, I believe it was you or Mr. MacFadden who indicated that "all the Governmental Authorities concerned" in the agreement the Dutch government—

Mr. ROCKEFELLER: And ours.

Mr. MUNRO: —and the United States government.

Mr. ROCKEFELLER: Because we had been advised that no Canadian approval was necessary.

Mr. MUNRO: Does it not seem slightly strange when purchasing a bank in Canada that you would not consider the Canadian government as being one of the authorities you would talk to about it?

Mr. ROCKEFELLER: We taked to Mr. Rasminsky.

Mr. MUNRO: You talked to Mr. Rasminsky but what I am suggesting, Mr. Rockefeller, is that he does not represent the government of Canada. Is it not possible that this contract, in fact, is not binding and that you did not have the approval of the Canadian government?

Mr. ROCKEFELLER: Well, to go back, our Canadian lawyers told us no authority was necessary, and Mr. MacFadden got the impression from Mr. Rasminsky that he felt—on the legal point—that that was correct legal advice.

The CHAIRMAN: Now, Mr. Munro, certainly it is up to Mr. Basford if he wants to yield for supplementary questions.

Mr. BASFORD: I would suggest to the Committee that Mr. Munro is pursuing a very interesting line of questioning and I will yield the floor to him.

Mr. GREGOIRE: May I ask a supplementary question?

The CHAIRMAN: It would appear that Mr. Basford is yielding to you, Mr. Gregoire.

Mr. GRÉGOIRE: Mr. Rockefeller, I would like to know if your bank has bought other banks in other countries?

Mr. ROCKEFELLER: Yes.

Mr. GRÉGOIRE: And if on those occasions you had to deal with the government of the country where you bought the bank?

Mr. ROCKEFELLER: Every country is different. As we said this morning, when we can we prefer to open a branch; it is much simpler. In some countries we have to get a charter. We have a similar situation in South Africa to the one in Canada; it is a subsidiary bank. My recollection is that we went to the South African authorities there. We have a little bank in Nassau, and my recollection is that the law there is that you just set up a corporation and do business without telling anybody.

Mr. GRÉGOIRE: But generally speaking did you have—

Mr. ROCKEFELLER: You follow the laws of the country.

Mr. GRÉGOIRE: I would like to know because you said you buy banks in many countries.

Mr. ROCKEFELLER: No, not many. We have branches in many countries, but there are only a few of these cases where we have subsidiaries.

Mr. GRÉGOIRE: But generally in all these cases did you have to first deal with the government of the country where you buy a bank?

Mr. ROCKEFELLER: I would say fifty-fifty.

Mr. GRÉGOIRE: Fifty-fifty.

Mr. ROCKEFELLER: In London we open branches, and we do not have to tell them.

Mr. GRÉGOIRE: But to buy a bank?

Mr. ROCKEFELLER: There is no need to buy banks; we open branches. They let us open branches in all the countries in Europe.

An hon. MEMBER: Agencies.

Mr. ROCKEFELLER: Branches, not agencies.

The CHAIRMAN: Sweden?

Mr. ROCKEFELLER: No, we are not in Sweden; we are not in the Scandinavian countries.

The CHAIRMAN: I understand that in Sweden the banks cannot be owned by foreigners.

Mr. ROCKEFELLER: I do not know, I am not familiar with that.

An hon. MEMBER: In France?

Mr. ROCKEFELLER: In France we have our own branches.

The CHAIRMAN: Mr. Basford, would you care to resume?

Mr. BASFORD: I have very quickly read through this memorandum of Mr. Rockefeller's of July 19, 1963. We do not yet have Mr. MacFadden's memorandum. On a very quick reading there is nothing in there that surprises me. As to Mr. Gordon's attitude, which at that time, it seems to me, was well known and should have been well known to anyone investing in Canada in the amounts that were at this time contemplated, and this is something that I just do not understand. With respect, sir, I have difficulty in accepting the proposition that Citibank had absolutely no knowledge of the political situation in Canada at that time. This would appear to me—apart from your own investments—a rather peculiar advertisement for the Citibank, which is a very good bank—and I do not say that sarcastically—that is dealing all over the world and should be aware of the political situation existing in the countries in which its customers are dealing. You seem completely unaware of a very well known political situation in Canada. I find that very hard to accept.

Mr. ROCKEFELLER: All I can say is that in my daily work I am in touch with the executive officers of a great many corporations, many of which have operations in Canada, and I cannot recall any of them coming in and bemoaning any Canadian problems they had.

Mr. BASFORD: I can appreciate, sir, that you might not be familiar with this situation, but I was dealing with Citibank as a whole, collectively, and that some of its officers would not have that knowledge.

Mr. ROCKEFELLER: My associate, Mr. Clifford, wants to make a comment.

Mr. CLIFFORD: Mr. Basford, I think one of the reasons for this, and the question you ask is a good one, is that the Mercantile Bank was Dutch-owned at that time. What was involved was a change in ownership from Dutch to American hands. I think if it had been a different case, one where another bank was involved, then the views of the Minister certainly would have been of crucial importance. However, in this particular case I think it was hard to

understand—having been associated with the Citibank at that time—and it was hard to contemplate that there would be the objection that was voiced with a change in ownership from one foreigner to another.

Mr. MACFADDEN: It was not a take-over of a Canadian-owned, publicly-owned, bank.

Mr. BASFORD: I appreciate that, but I have done legal work for the Mercantile Bank of Canada and I do not understand why Mr. Moquette was not in a position to advise you that this would create a political ruckus in Canada and that it should be cleared with the Minister.

Mr. MACFADDEN: I hope your bill was said!

Mr. BASFORD: It was. I have no further questions.

The CHAIRMAN: I recognize Mr. Gilbert.

Mr GILBERT: Mr. Chairman, I would like to ask Mr. Rockefeller about the First National City Bank. Is it incorporated under federal powers in the United States?

Mr. ROCKEFELLER: Yes, by a National Bank charter.

Mr. GILBERT: Does that permit the bank to open branches in different states?

Mr. ROCKEFFELER: No. Our banking law in the United States is a very complicated one and nobody is capable of explaining it in a few minutes. However, the broad practise is that a national bank in the state in which it operates can do no more in that state than the state banks do in that same state. In New York, for instance, we are limited to a New York city area which is defined. The Chicago banks can only have one office in the city of Chicago; that is Illinois law. The Bank of America in California, which is under California law, can have branches all up and down the state of California. As to branches, the National Banking Act defers to the states.

Mr. GILBERT: That is quite different from what we have in Canada.

Mr. ROCKEFELLER: It is different from any place else in the world. I think it is the most antiquated system there is, and it is very hard to explain to anybody who was not brought up with it in the United States. It is not logical.

Mr. GILBERT: Would you venture an opinion with regard to the Javit's bill?

The CHAIRMAN: Well, Mr. Gilbert, I must intervene at this point.

Mr. GILBERT: This is informational.

The CHAIRMAN: Oh, I realize that, but I have precluded other witnesses from asking general questions which do not seem to be related to this particular topic. I am not saying it will not be quite relevant at another stage.

Mr. GILBERT: At what stage, Mr. Chairman?

The CHAIRMAN: Well, we are going to deal with the issue of discrimination and, if I may suggest it to you, I would be interested in making comparisons between Canada and the United States and other countries in the course of discussion on that topic. We are also going to deal with the general topic involving the question of governmental controls over the Mercantile and other banks, and we want to make some comparisons. We are also dealing with the role of the Mercantile Bank in assisting Canadian business at home and abroad.

Mr. GILBERT: Fine, I will defer it until then.

The CHAIRMAN: Do you have other questions on the issue of retroactivity?

Mr. GILBERT: No, that is all, Mr. Chairman.

The CHAIRMAN: I will recognize Mr. Thompson, Mr. Davis and Mr. Grégoire.

Mr. GILBERT: Mr. Chairman, there is one small question here with regard to the memorandum of agreement that was entered into on June 26. One of the last clauses reads:

> It is agreed that the publication of the deal will be done in a joint statement to which both parties have to concur.

Was that done?

Mr. MACFADDEN: Yes, on August 1.

Mr. GILBERT: On August 1. Thank you very much.

Mr. ROCKEFELLER: The Dutch were very sensitive about selling something. They did not want to lose face. They wanted to see the wording.

The CHAIRMAN: Mr. Thompson?

Mr. THOMPSON: My first question is to Mr. Rockefeller. I wonder if you could tell us, Mr. Rockefeller, on what date negotiations began between the Rotterdamsche Bank and the First City National Bank, or the International Banking Corporation on its behalf?

Mr. ROCKEFELLER: I do not have that information. We can go through our records and try and find it for you.

Mr. THOMPSON: Would that be earlier in the year 1963 or was it in 1962, or how soon before?

Mr. ROCKEFELLER: Mr. MacFadden can perhaps come closer to it, but my guess would be—and this is only a guess—that it might have been over a 60 day period in advance. It might have been longer, I do not know. Would you mind asking Mr. MacFadden, because he was closer to it.

Mr. THOMPSON: Mr. MacFadden?

Mr. MACFADDEN: Mr. Thompson, the first discussion with the Dutch occurred on or about the early part of October in 1962. The negotiations became serious in March of 1963.

Mr. THOMPSON: I do not know whether to ask this of Mr. Rockefeller or Mr. MacFadden. Perhaps one of you could tell us how the Rotterdamsche Bank compares in size with the First City National Bank?

Mr. ROCKEFELLER: Oh, it is much smaller. It has since merged, so it has lost its identity.

Mr. THOMPSON: I now come back to you, Mr. MacFadden, in following up Mr. Wahn's premise about the actual dates of your talks with Mr. Gordon and Mr. Rasminsky, or the specific day in which your memorandum was signed with the Dutch bank, or even the fact that this was merely a change of ownership between two foreign banks. It seems to me that the logical answer to this problem of retroactivity is found in the fact that the bank acts in Canada are due

for decennial revision, and that it is not only the practice but it is the traditional procedure in Canada to revise the bank acts every 10 years. I cannot see how in purchasing a bank in Canada, you could be so unfamiliar with the Canadian scene that you actually did not understand that this was the procedure in Canada, and this is what you would face in a matter of several years after having taken over the Mercantile Bank.

Mr. MacFadden: We were very familiar with that; we knew that the Bank Act comes up for revision every 10 years.

Mr. Thompson: How can you then talk of retroactivity when every bank operating in Canada faces a change in banking legislation every 10 years?

Mr. MacFadden: Yes, but we did not anticipate that there would be a special clause put into the revision of the Bank Act to put a fence around this bank that was legally and—

Mr. Thompson: A fence! Well, charters have been granted to two new Canadian banks and the requirements of these revisions are certainly different from those of the Bank Act when these charters were granted, even if it were only a few months ago.

Mr. MacFadden: Yes, but they did not apply for the charters betwen 1954 and 1964.

Mr. Basford: I have a supplementary question, Mr. Chairman, if I may?

The Chairman: If Mr. Thompson will yield.

Mr. Thompson: Go ahead.

Mr. Basford: Mr. MacFadden, surely your memorandum of July 18 indicates that Mr. Rasminsky told you on June 20 that what you were contemplating doing was—from his point of view—extremely undesirable.

Mr. MacFadden: My recollection is that he said he was not 100 per cent happy.

Mr. Basford: Well, I was reading your memorandum, which does not use those words.

Mr. Thompson: Again, Mr. Chairman, it seems to me that this whole basis of retroactivity loses its point in the fact of the decennial revision of the Bank Act. It seems to me that the First National City Bank officials must have been aware of what the situation was in Canada. If you look at the memorandum of Mr. Rockefeller, the third paragraph reads:

> They

Speaking of Canada.

> —pretty much ignore the Mercantile Bank under Dutch control on account of the scope of its activities. While highly complimentary to FNCB and its personnel they feel under our management the Mercantile Bank would become a more important factor. He expressed fears of an American manager and an American subsidiary being more responsive to our interests and those of the U.S. than those of Canada.

So, it seems to me that in this memorandum Mr. Rockefeller was quite aware of the remarks that Mr. Gordon had impressed upon him. I now go over to the memorandum of Mr. MacFadden, and it seems to me you were very well aware of the political procedures and the political situation in Canada. In fact, three-quarters of the way down the page I read:

> With a minority Government, having to deal with vociferous minority parties, he could not predict what. . . would be included in the new Act.

I would say the minority parties have been very rational and very quiet in their arguments here today. However, it seems to me that the argument that you are putting up here as far as retroactivity is concerned just loses its whole point because you very definitely reveal your awareness of the political situation in Canada according to your impression.

Mr. ROCKEFELLER: May I reply to Mr. Thompson?

The CHAIRMAN: Yes.

Mr. ROCKFELLER: Mr. Thompson, I do not want to be considered casual or disrespectful, but certainly we knew you revised your Bank Act, and the decennial revision of the Bank Act, provided a bank behaved itself and deported itself properly, to me is like renewing my automobile driver's license every year. If I ask for it, then I get it if I have not been a bad boy. Now, that may have been a false impression on my part. Mr. MacFadden may have given it more consideration, but I certainly did not consider it a major issue.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Mr. Rockefeller, if between the time you got your last driver's license and the time you applied for the next one you passed a certain age barrier or if your eyes became less effective, you would expect—

Mr. ROCKEFELLER: I would expect trouble; or if I had broken the law.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: You would expect some revision of the terms on which you got the licence.

Mr. ROCKEFELLER: Yes, that is right.

An hon. MEMBER: But what if he had not broken any law?

Mr. ROCKEFELLER: But perfectly reasonable revisions, I would say.

Mr. THOMPSON: In this regard, Mr. Rockefeller, I believe that many of the representatives of Canadian banks in this room today may not think that some of the revisions in this present Bank Act are too reasonable, but they present their case and they accept the ruling.

Mr. ROCKEFELLER: That is all we are trying to do, that is all we are trying to do.

Mr. THOMPSON: Well, Mr. MacFadden, Mr. Palmer stated that he regards the Mercantile Bank as a Canadian Bank. He said the Mercantile Bank is only asking that the Mercantile Bank be regarded as any other bank operating in Canada. I would ask you, Mr. MacFadden,—I believe you understand the situation here in Canada very well—would this Mercantile Bank be willing to dispose of 90 per cent of its shares, or 75 per cent, as the case may be, so as to meet the requirements of Section 53 paragraph 1(b) and paragraph 2(a)? Would the National City Bank be willing to?

Mr. MacFadden: Well, who would run the bank?

Mr. Thompson: Well, Mr. Palmer said he is quite willing to go along as a Canadian bank and accept legislation, that is passed, governing banking in Canada. The regulation in Bill No. C-222 applies to Canadian banks. Would you be willing to meet those requirements?

Mr. Rockefeller: Only if forced to do so, because after all there is no percentage in doing all the work and giving somebody else 90 per cent of the benefit of it.

Mr. Thompson: Well, this is the banking regulation, and this is how Canadian Banks operate or will be required to operate if this bill becomes law.

Mr. MacFadden: Yes, but there are no shareholdings, as we understand it, in any of the Canadian banks that exceed 10 per cent in any one non-resident or resident holder, or are the total holdings of non-residents in excess of 25 per cent.

Mr. Clifford: May I speak to this? Mr. Thompson, the clauses in the fifties apply to all banks, and if my understanding is correct, the cut-off date is that day in September, 1964. So that there is not the retroactive feature in that. I will certainly agree that the cause requiring the devestiture of Trust Company shares and such institutions such as RoyNat is retroactive. But the big difference between that clause and clause 75(2)(g) is that that clause applies to all banks; whereas 75(2)(g) applies only to us. There is no other bank, except the Bank of Western Canada and the Bank of British Columbia, that it refers to and both of those banks obtained their charters with the full knowledge that these clauses were going to be in the act, so that can hardly be considered retroactive in those cases.

The Chairman: You do admit, sir in other words, that this clause does not apply only to your clients? You have just said so.

Mr. Clifford: I am speaking of the clause—

The Chairman: Clause 75(2)(g).

Mr. Clifford: No, that applies to the Bank of Western Canada, but the Bank of Western Canada obtained its charter with the full knowledge that this clause was going to be in there and accepted its terms.

Mr. Thompson: You are a Canadian, I believe.

Mr. Clifford: No, I am an American, but I live in Canada.

Mr. Thompson: Well, you are very familiar with Canadian laws. Do you mean that you regard a revision of the Bank Act, whatever the terms of that revising legislation might be, as being retroactive? Would you not regard this as normal procedure in the decennial revision of the Bank Act?

Mr. Clifford: The decennial revision of the Bank Act is an updating, and a very useful and helpful updating of banking legislation, which we go through every 10 years. There are parts in it—I mentioned one—that I am sure everybody here will agree have a retroactive aspect to them, applying to all banks, as far as investment in trust companies and other institutions is concerned. However, that applies to all banks, not just one, and that is the difference. We

acknowledge completely obviously, that often there are changes in a decennial revision of the Bank Act, and it does apply to everybody.

The CHAIRMAN: So, you are now in effect saying, sir, that the problem here is that this applies only to you. You are not therefore objecting to retroactivity as such with respect to the banking field?

Mr. CLIFFORD: In principle I am not in favour of retroactive legislation without commenting on the merits or demerits of that section of the Bank Act, which I think have been very ably spoken to before this Committee.

Mr. LAFLAMME: May I ask you, Mr. Chairman, a supplementary question? How could you say that a law is retroactive when it applies only to the future?

Mr. CLIFFORD: In what respect are you—

Mr. LAFLAMME: In every respect.

Mr. CLIFFORD: Clause 75(2)(g) is not applying to the future, it is changing—

Mr. LAFLAMME: It is going to apply to every bank.

Mr. CLIFFORD: It applies to every bank, but there is only one bank to which it is applicable.

Mr. LAFLAMME: Which is in these circumstances?

Mr. CLIFFORD: I beg your pardon.

Mr. LAFLAMME: Which has a complete 100 per cent owned shares belonging to one corporation.

Mr. CLIFFORD: That is right.

Mr. GRÉGOIRE: Would you say then that if there were two banks in your situation there would be no case of retroactivity, and only the number of banks make the retroactivity?

Mr. CLIFFORD: I am saying that the fact is that this applies to us and not to anybody else.

Mr. GRÉGOIRE: And if it was applied to somebody else there would be no case of retroactivity?

Mr. CLIFFORD: That is a hypothetical question. The fact is—

Mr. GRÉGOIRE: You mentioned these questions.

Mr. CLIFFORD: No, I—

Mr. GRÉGOIRE: You said: "because it applies only to us".

Mr. CLIFFORD: It does apply only to us.

The CHAIRMAN: Mr. Grégoire I think you have got your answer. I think we should return to Mr. Thompson.

Mr. THOMPSON: I have one question for Mr. Rockefeller. Could you tell us, Mr. Rockefeller, what is the financial and corporate connection between Chase Manhatten Bank and Citibank in New York.

Mr. ROCKEFELLER: Absolutely none whatsoever.

Mr. THOMPSON: Mr. MacFadden, you state on page 13 of your brief that 86.5 per cent of the borrowers are companies that are wholly Canadian owned as far

as your present business is concerned. Is it your intention or plan to expand Mercantile so that through multiple branches it enters into the business of general banking across the country. Or is it the intention to limit it to agencies and bank representatives more in line with the practice of Canadian banks in the United States?

Mr. MACFADDEN: We have no agencies or agents in Canada.

Mr. THOMPSON: I am speaking of the future and I am speaking of agents. You are acting as your own agents but not in the sense of normal banking practice across the counter.

Mr. MACFADDEN: It would be our intention, under present philosophy, to establish perhaps a few more branches in order to conform to the general banking practice of the other chartered banks, and it would enable us to be in a position to clear cheques for our customers. It is not our intention at the present time to consider going into a multiple branch operation. As we point out in our brief, the market is very well covered by the existing Canadian banks, who have this large multiple branch establishment. It would be a very expensive thing for us to do and not a practical thing for us to do.

Mr. THOMPSON: One last question, Mr. Chairman; I direct it to Mr. Rockefeller. Does the Citibank face any regulations in those countries where it has subsidiaries, or where it may have direct charters, similar to those proposed in Bill No. C-222—

Mr. ROCKEFELLER: Not that I know of.

Mr. THOMPSON: In effect having to follow the legislation and regulations of the country in which—

Mr. ROCKEFELLER: Not that specifically apply to us and only us. Each country has its own banking laws, and we and the other banks in those countries conform to those laws. There is no difference—

Mr. THOMPSON: You say it applies to you but it could apply to any bank like yours in the country.

Mr. ROCKEFELLER: It does, it does.—

Mr. THOMPSON: The difference being foreign ownership and domestic ownership.

Mr. ROCKEFELLER: Most countries have a great deal of foreign banks. I mean some countries have 30 or 40 different foreign banks, originating in different countries; and they all conform to the laws of the country in which they are operating.

Mr. MACALUSO: Different levels of ownership.

Mr. ROCKEFELLER: All kinds of different ownerships, private banks, public banks, subsidiary banks.

Mr. MACALUSO: No, I mean requirements, requirements as to foreign ownership, the level of foreign ownership. Japan has what, 50 per cent?

Mr. ROCKEFELLER: No; we have our own branches; no capital required.

The CHAIRMAN: I think we can get into this issue of discrimination.

Mr. DAVIS: Mr. Chairman, I would like to address my question to Mr. Rockefeller. I would like him to cast his mind back to the summer of 1963. He was obviously faced with several uncertainties. He was taking over, or the National City Bank was taking over, 100 per cent control of a bank which was already foreign owned. You examined the legal consequences of this and you could not see any need for changes in respect to the law in Canada. However, you were looking ahead to a situation where within, perhaps 12 months, certainly within a year or two, there would be a decennial revision of the Bank Act in Canada and conceivably you could run to somewhat different ground rule, the rules could be changed in some respects. From an economic point of view you had several uncertainties. I have heard the phrases used by you and Mr. MacFadden "continue to operate". Now, in my view, and perhaps you would like to comment on this, you can continue to operate, without growth, you can continue to operate. Is that not true under the draft act as proposed?

Mr. ROCKEFELLER: I suppose you could say that as a practical matter it is meaningless; because if you do not grow with your competitors, you fall behind in your—

Mr. DAVIS: Well, what you are really saying, then, is that the essence of your concern is on growth; that you, in 1963, bought this asset as you saw it, because it had not only an opportunity to continue to operate but to grow?

Mr. ROCKEFELLER: It was potentially a good investment.

Mr. DAVIS: Now, the word growth, points to the future, does it not?

Mr. ROCKEFELLER: Yes, sure.

Mr. DAVIS: So essentially your concern was not with the retroactive feature.

Mr. ROCKEFELLER: No, I mean we were thinking of growth and the return on the money.

Mr. DAVIS: What was under the law of that day?

Mr. ROCKEFELLER: Yes.

Mr. DAVIS: What would materialize in the years to come?

Mr. ROCKEFELLER: We thought it would be a good investment, just like you would make an investment.

Mr. DAVIS: Well, my main point really is to isolate first this matter of growth, and to say that the growth really was something for the future—

Mr. ROCKEFELLER: Yes, I would say growth connotates the future rather than the past.

Mr. DAVIS: Therefore, the arguments concerned here relate to the future and not the past. We are not really that much concerned with retroactivity, but the law, as it stood then, or the charter as it stood then, the charter you bought, was good for a million shares at $10, which was $10 million capital, and that is unchanged; there is no retroactive aspect here?

Mr. ROCKEFELLER: No; it was cheaper then. We had to put more money in afterwards.

Mr. MACFADDEN: It was $5 million when we purchased it, we doubled the capital.

Mr. DAVIS: Yes, but under the charter as it stood, you had this opportunity to expand?

Mr. MACFADDEN: Yes, we doubled the capital.

Mr. DAVIS: Of which you have taken advantage and so on; there is no retroactive action in respect of the authorized capital. What would you say was a reasonable range of ratios as between total liability your authorized capital? Currently it is about 28 to 1, something like that.

Mr. ROCKEFELLER: Mr. MacFadden had some figures of the Canadian banks that ran up to 70 times capital.

Mr. MACFADDEN: There is an exhibit in the back of the brief which shows the ratio of liabilities to authorized capital of the other Canadian chartered banks.

Mr. ROCKEFELLER: But the Japanese and the Germans go even higher.

Mr. DAVIS: So back in 1963 you could have reasonably expected to exploit a charter which had an authorized capital of, let us say, $10 million, and you could run the ratio up to over 30 to 1, perhaps, or more.

Mr. ROCKEFELLER: We would conform—

Mr. DAVIS: That is the degree of growth you bought?

Mr. ROCKEFELLER: Yes; what we would do is that we would—and we felt that the public would force us to—conform, otherwise they would not do business with the bank, to the same ratios as the average of the big chartered Canadian banks; that we could not be out of line.

Mr. DAVIS: Well, would you argue with this interpretation. You bought an asset which in your view at least, almost certainly had a growth prospect up to 25 or 30 times $10 million, but was not guaranteed beyond that growth because there would be new laws, and so on; in other words you were gambling on the law.

Mr. ROCKEFELLER: Well, we would expect—and this is what you find elsewhere—that if your business grows, and it seems desirable to put more capital in, you are encouraged to do so.

Mr. DAVIS: Yes, but this was a future act.

Mr. ROCKEFELLER: Yes.

Mr. DAVIS: So that the retroactive aspect here is not very big, it does not loom very large. One final question, Mr. Chairman. What percentage of the shares, of say, the First National City Bank is held by the largest single shareholders?

Mr. ROCKEFELLER: We have 26 million shares outstanding and the largest shareholder would be—it would be one of these funds—would be between 100,000 and 150,000. Now, you figure out what that percentage would be; it would be less than 1 per cent.

Mr. DAVIS: So your ownership, or at least the ownership of the National City Bank is very widely dispersed?

Mr. ROCKEFELLER: Public held company, completely public held.

Mr. DAVIS: You think this is essentially good policy?

Mr. ROCKEFELLER: Yes.

The CHAIRMAN: Then, you agree with Mr. Davis in that policy?

Mr. ROCKEFELLER: Yes; well it is the facts of life. We are so big that nobody could own us.

Mr. DAVIS: One other point, Mr. Chairman, there was a—

Mr. ROCKEFELLER: We have a billion shares in capital now.

Mr. DAVIS: There was a reference to buying a car and then at the end of the year renewing a licence. It seems to me that every second year you are buying licences not for just one car, but two cars and four cars, a year or two later, and so on. I think that would have been more—

Mr. ROCKEFELLER: I was talking about the permit to drive a car, my driver's licence.

Mr. MONTEITH: It is good for any car.

Mr. GRÉGOIRE: Mr. MacFadden, on the 20th of June you had a conversation with Mr. Rasminsky?

Mr. MACFADDEN: Yes, Mr. Grégoire.

Mr. GRÉGOIRE: And he mentioned to you that it would be advisable for you to meet with the Minister of Finance; is that not right?

Mr. MACFADDEN: That is correct.

Mr. GRÉGOIRE: Was not that advice by the Governor of the Bank of Canada sufficient to have your bank consult with the Minister of Finance before concluding any transaction with the Dutch bank?

Mr. MACFADDEN: Well, this was a conversation, a suggestion. When you enter into a business negotiation and you are in the middle of the negotiations you come to an agreement. It is just not the practice when you are trying to close a deal to get up from the table and say: "Well that is fine, gentlemen, we have got to go and talk to a few people and see whether they like us or not". As long as you are well advised ahead of time that you are not contravening any laws—

Mr. ROCKEFELLER: Mr. Grégoire, may I make a point?

Mr. GRÉGOIRE: Yes.

Mr. ROCKEFELLER: I think the facts speak for themselves. If Mr. MacFadden had come away from Mr. Rasminsky thinking it was Mr. Rasminsky's idea that he should talk, or we should talk, to Mr. Gordon before anything further was done, we would have done it. We would have done it without any question, if we thought that was the thing to do. Now, we have made the wrong decision and had the wrong impression.

Mr. GRÉGOIRE: But is it not a fact that the Governor of the Bank of Canada advised Mr. MacFadden and the First National City Bank that it would be better to meet with the Minister of Finance before—

Mr. ROCKEFELLER: I question your word "before"; you will have to refer to Mr. MacFadden if there was any objection to that word "before".

Mr. GRÉGOIRE: Well, it was at the 20th June that you talked with Mr. Rasminsky, and it was something like 36 days before the Board of Directors of the Citibank accepted.

Mr. MACFADDEN: It was 6 days before the contract was entered into with the Dutch in Rotterdam.

Mr. GRÉGOIRE: Yes, but the contract with the Dutch was subject to consent by the Board of Directors of the Citibank.

Mr. MACFADDEN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could I have a supplementary question, please? Mr. MacFadden in your memorandum you indirectly quote Mr. Rasminsky. You say that:

> Mr. Gordon raised the same questions as had been previously raised by Rasminsky in my conversation with him on June 20th:—
>
> (a) This action of ours would open the flood gates for charter applications by other American banks, and
>
> (b) The confidential nature of the relations of the Governor with the Canadian banks would be disrupted by the presence of a subsidiary of a large American Bank who would perforce report all discussions to its Head office. Concern was also expressed over the possible interference of some of our United States laws, such as the Clayton Anti-Trust Act.

Now, would that not have given you at least some hint that Mr. Rasminsky was opposed to your action, and that he would be advising the Minister of Finance in his capacity as Governor of the Bank of Canada? I find it difficult to understand that you did not, from those suggestions which you quote of Mr. Rasminsky, reach the conclusion on June 20, that you had better clear this with the Canadian Government authorities before you went any further on June 20th when you signed the agreement. How do you explain that? I mean, did you not discuss this with Mr. Rasminsky and what he meant by bringing these two things up?

Mr. MACFADDEN: The reference there is to the same two general areas which had been discussed with the Governor. And I reiterate, that at no time did the Governor indicate to me in this conversation, my impression is, that we were violating any law on the books of Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No he could not do that. But surely he was indicating to you that you were taking a rather dangerous course which might eventually lead to your contravening a law that was to be amended.

Mr. MACFADDEN: That was not my impression.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well how did you answer Mr. Rasminsky's two objections?

Mr. MACFADDEN: Well, on the question of opening the flood gates to applications of American banks to come into Canada, obviously I could hardly speak for the 17,000 banks in the United States. I think that is something, under the previous Bank Act, that will be dealt with by this Committee and by the

Treasury Board, whatever procedures were necessary to apply. I did not feel, in answer to the Minister's questions, that this presented any serious problems because we could not anticipate that there would be a flood of applications to come into Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are you telling us that you came away from your conversation with Mr. Rasminsky without any idea in your mind that this course of action was unacceptable to him, as Governor of the Bank of Canada, and consequently probably to the Government of Canada because he would advise the Minister of Finance. You had no idea of that when he raised these objections?

Mr. MACFADDEN: Well, of course, he raised the objections and we discussed it. But I did not feel that there was any undue concern.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Oh!

Mr. GRÉGOIRE: You took it for granted then that the opposition of the Governor of the Bank of Canada was not important?

Mr. MACFADDEN: Not competent, no.

Mr. GRÉGOIRE: And the advice you received from him to see the Minister of Finance was not sufficient enough to give you that impression.

Mr. MACFADDEN: As I stated this morning, I told him that as soon as we had a firm deal I would come back and we would keep him informed of the negotiations. And I did that within a matter of days after the agreement was—

Mr. GRÉGOIRE: Yes, but you say you saw Mr. Rasminsky on June 20. Then you had a prospective deal with the Dutch bank, subject to acceptance by your Board of Directors, on the 6th of June I think—26th June. Then, on the 16th of July your board of directors accepted the deal, and two days afterwards you met the Minister of Finance, leaving 36 days after the advice from the Governor of the Bank of Canada. Are those the events?

Mr. MACFADDEN: As I say, that was not my impression.

Mr. GRÉGOIRE: Now, who was in such a hurry to finish the deal? Was it the First National City Bank or the Dutch, because you finished the deal two days before seeing the Minister of Finance? Who was in a hurry to finish the deal, was it your bank or the Dutch bank?

Mr. MACFADDEN: Well, nobody was riding a bicycle. We were in the middle of negotiations which were proceeding very rapidly, and then we came to an agreement with the Dutch very much more quickly than I had anticipated. But these negotiations were in process and had been since March.

Mr. GRÉGOIRE: But as soon as you had the first document—the one of the 26th of June—you had a good option in your hands.

Mr. ROCKEFELLER: Contract.

Mr. GRÉGOIRE: A good contract, which was not a definite contract. It became definite when your board of directors accepted it.

Mr. MACFADDEN: It was a definite and enforceable contract on the 26th of June.

Mr. GRÉGOIRE: Well, the first paragraph said "subject to approbation by respective board of administration", so it became effective with that acceptance by the board of administration of the First National City Bank, not before. You had a good option before, but it became—

Mr. MACFADDEN: Counsel tells us that that is a legally enforceable binding contract of the 26th of June.

Mr. GRÉGOIRE: After the 26th of June or after the 16th of July?

Mr. MACFADDEN: On the 26th of June.

The CHAIRMAN: Oh, just a minute sir, you have already told me sometime previously, and I understood you to say, that it would be enforceable, subject to the approval, at least, of your government. You are not suggesting that you would have gone ahead and completed a deal that the Federal Reserve would disapprove.

Mr. MACFADDEN: Of course not. We have already said that, but I am saying, subject to these approvals which are the qualifications of any business deal between the buyer and seller where legal authorities and governmental authorities must give prior approval. It was obvious that the Dutch would not sell the bank and accept the payment from us until these two government approvals had been given.

Mr. GRÉGOIRE: Yes, and also subject to approbation of your board of administration.

Mr. MACFADDEN: Yes, but the two officers of the National City Bank, the National Banking Corporation, and two officers and managing directors of the Rotterdamsche Bank signed an agreement to sell and to buy.

Mr. GRÉGOIRE: Subject to.

Mr. MACFADDEN: Correct.

Mr. GRÉGOIRE: So, it is not final until it is approved by your board of administration.

Mr. MACFADDEN: Well, I think we are getting into rather extreme details on the legal side, and I am not a lawyer—

Mr. MACALUSO: Perhaps your legal advisers could answer that, because I am certain he will agree with the terminology that is being used by Mr. Grégoire.

Mr. CLERMONT: Mr. Chairman, may I have the word—

Mr. GRÉGOIRE: May we have the legal advice of your lawyer?

The CHAIRMAN: If Mr. Palmer feels that he is not competent to deal with this, since it was an agreement drafted and signed apparently in Amsterdam, and partially enforceable in the United States, he may ask a colleague from New York.

Mr. ROCKEFELLER: Mr. Harfield.

The CHAIRMAN: Could you come up here, Mr. Harfield, and bring your little chair with you. Now, I think we ought to try and clarify this, and I think Mr. Grégoire will agree with me.

Mr. GRÉGOIRE: Yes, I would like to have it clarified.

The CHAIRMAN: This phrase must have some meaning.

Mr. HARFIELD: Oh, I think quite clearly it does. I would construe this, under the laws of New York, and it would be my understanding that this would be a fairly general construction, that you had here a binding agreement duly executed by both of the parties, which was subject to conditions subsequent. The conditions subsequent were of two kinds; one was the approval of the boards of directors; the other was the approval of the Dutch Central Bank and of the Federal Reserve Board.

The CHAIRMAN: Why conditions subsequent rather than conditions precedent.

Mr. HARFIELD: Well, I suppose that is really a question of chicken and egg. You can do it either way, but it has been my experience that ordinarily, where you are making a large deal, what you do is to firm up the deal and then you provide that between the time of making the deal and the time of actual closing, you tidy up the details. I am sure that all of you have had the experience of making an agreement which has to be performed at a later date, the performance being subject to opinions of counsel, to title deeds, to title searches; that is what all these things were, in my judgment.

The CHAIRMAN: And if these conditions are not met the deal is not completed.

Mr. HARFIELD: That is right. Now, you come to the other question whether you can repudiate your own deal. And I suppose that, so far as the approvals of the boards of directors were concerned, a board of directors, the board of directors of IBC could have declined to act on this, and that would probably have been an excuse. It would have been a repudiation of what their officers had done. But they might have had a legal technical out on that. Clearly if the Federal Reserve Board had failed to give its approval, as I think Mr. Rockefeller has testified, that would have been an act beyond the control of the parties, which would have made the agreement unenforceable, and no longer binding. The same thing would have been true if there had been a failure to obtain the exchange control licence of the Dutch.

I do not want to appear to argue this, but I might call your attention to the fact that as I listened to the testimony today, chronology is rather imporant. Mr. MacFadden had a conversation with Mr. Rasminsky on the 20th. This agreement was executed on the 26th. On the 2nd of July, Mr. Rasminsky was advised of that fact by telephone and a request for a meeting with the Minister of Finance was made, and yet it was not until the 16th that the board of the IBC met. Now surely they were not trying to rush through.

Mr. GRÉGOIRE: Mr. Rockefeller, did Mr. MacFadden advise you of what Mr. Rasminsky had told him?

Mr. ROCKEFELLER: I am sure he did. I do not remember now, but I am sure he did; he would have in the normal course of events.

Mr. GRÉGOIRE: So he found it important it enough to advise you?

Mr. ROCKEFELLER: I would think so. I do not remember, but I think so. May I elaborate on your other point just a second. We live in a practical world. If the Citibank in New York and the Rotterdamsche Bank in Holland are making a

deal, produce the paper and signed by authorized officers, and either one of us had wheeled out of it on a technicality, our name would have been worthless in banking circles in a week. That is just practical. As to legal, you can do—I do not care what the legal is. But it would go around Europe that the Citibank had welshed on the deal.

Mr. GRÉGOIRE: Yes, but do you call the judgment, or the decisions of the Minister of Finance of Canada a technicality?

Mr. ROCKEFELLER: I am not talking about that, I am talking about the boards of directors. I am not mentioning the financial authorities.

Mr. GRÉGOIRE: I am mentioning the political authorities in Canada. Is that a technicality?

Mr. ROCKEFELLER: No, absolutely not; I am just talking about our board and the Rotterdamsche board. If either board had refused to go along with it our name would have been mud. It is a practical matter.

Mr. GRÉGOIRE: But, Mr. Rockefeller, what I fail to understand is this: if Mr. MacFadden judged it was important enough to tell you about the advice of Mr. Rasminsky—

Mr. ROCKEFELLER: I am sure he called me. I do not remember, but I am sure.

Mr. GRÉGOIRE: He judged it was important enough to tell you about it, and then both of you together did not find it important enough to consult the Minister of Finance before closing the deal; this is what I fail to understand.

Mr. ROCKEFELLER: We had the impression, rightly or wrongly, from Mr. Rasminsky through Mr. MacFadden—I was not there—that we did not have to go to Mr. Gordon and did not need to go to Mr. Gordon until after the deal was made. Now, that may have been a false assumption, but that was our belief; otherwise we would have done it, as I said before; if Mr. Rasminsky had told us, "you do this before", we would have done it, of course. We were not trying to get away with anything.

Mr. GRÉGOIRE: Just on the same subject, but maybe beside the point, as an American businessman, do you feel that you can deal with Canada without, and it is not necessary or important to consult the political authorities, or financial authorities in Canada before—

Mr. ROCKEFELLER: That depends on what kind of a deal; if I want to come up fishing, I do not have to ask any advice.

Mr. GRÉGOIRE: But is it not important in a banking deal?

Mr. ROCKEFELLER: That depends on what kind of a deal. I might want to cash a cheque at the Canadian Bank.

The CHAIRMAN: You do not go through the immigration and custom lines?

Mr. ROCKEFELLER: Very easily, easier on your side than on ours.

Mr. BACHAND: Mr. Chairman, without being disrespectful, as a Canadian, I still think that when there is a law that does not prohibit something, no matter

what respect you have for the Governor of the Bank of Canada, or for a minister, because ministers come and go—

Mr. CASHIN: I was going to ask a question on the point that was just interjected; and since it has been introduced now, I wonder if you would permit me, Mr. Grégoire to ask a question. You mentioned and you seem to rest the case on this, that the law did not, as far as you were concerned, present any road blocks to you. Am I to infer from that that you had a very thorough look at the law?

Mr. ROCKEFELLER: Yes, we consulted Canadian counsel. I do not know if it was Mr. Palmer, or who it was.

Mr. CASHIN: Would they have presented a written brief to you on this.

Mr. ROCKEFELLER: I do not remember.

Mr. CASHIN: Since you understood that bank charters, or the Bank Act, is revised every ten years I am wondering if you thought it worth your while to obtain a legal opinion in Canada on what possible effect the revision of the Bank Act might have on your operation? Since you conducted a thorough investigation of the law and since the law was up for revision and there was a royal commission sitting on the matter, would it not have seemed appropriate to ask for some legal opinion?

Mr. PALMER: I was consulted in connection with this matter, both in Toronto and in New York. I do not recall giving a formal opinion before this conversation of July 18, but I may have done so. I remember very distinctly the conversation in New York, when the matter of the revision of the Bank Act was brought up and discussed, and the possibility that the charter of Mercantile Bank would not be renewed was also discussed. I ventured the opinion at that time—I felt it very strongly—that I thought it most unlikely that, for any reason whatsoever, except for bad behaviour, as Mr. MacFadden said this morning, the charter of one bank would be revoked. I felt that then, and that is one reason I am here today, arguing that in this particular case.

The CHAIRMAN: It would appear Mr. Palmer, that your advice to your clients was sound because as far as I can determine, from my study of this law, there is nothing in here revoking their charter.

Mr. PALMER: There is not?

The CHAIRMAN: No.

Mr. PALMER: That was the only thing that was discussed. We were not talking about clause 75(2)(g). We had never heard of it. We were discussing the possibility that the charter would not be renewed and I gave, as my personal opinion, my view that that would not happen.

Mr. CASHIN: But is this the only reference you made, in your legal opinion to your client, to the revision of the Bank Act.

The CHAIRMAN: I think what you are driving at Mr. Cashin, is whether he advised his client as to the possibility of changes which might affect their operation in Canada in a way different from what they were doing at that particular time.

Mr. PALMER: No, because it was never in my contemplation that there would be special legislation directed at this particular bank.

Mr. CASHIN: I am speaking, not only from a legal point of view. In the minds of the buyers, in terms of doing an economic analysis as to the success of their venture, would the possible revisions of the Bank Act and all other factors not be of some interest to them at that time, in deciding on the action they were taking?

Mr. PALMER: I am not a banker, Mr. Cashin, and I do not know what factors were considered by the officers of First National. Certainly, as far as I can recall, there was no suggestion at that time of what the revisions of the Bank Act might be. It was a year ahead—and as it now happens, it is three years since this particular deal. Nobody knew how the Bank Act might be amended and if it were amended—and this is the point that I think I want to stress again—at the decennial revision of the act, it would apply to all banks. I expressed the very definite view that in my feeling it was extremely unlikely that the parliament of Canada, which is bigger than the government, would revoke the charter of one Canadian bank for no sufficient cause.

Mr. CASHIN: Was there any reference at all in these discussions, to the matter of any concern in Canada at any time, in any way, shape or form, to foreign ownership in banks? Was the foreign ownership in banks mentioned, or Canadian attitudes, or attitudes of Canadian personalities towards foreign ownership?

Mr. PALMER: I do not recall any, Mr. Cashin; I remember being in New York with my partner Mr. Dunnet on the 15th of July, before this meeting, and the matter of Mr. Rockefeller and Mr. MacFadden going to Ottawa was discussed. I can remember very definitely the way it was presented to me; they were coming to Ottawa, as a matter of courtesy to call on the Minister of Finance, and either before or after that particular discussion I had advised them that there was no legal impediment in Canadian law to their buying the shares of the Mercantile Bank from another foreign owner.

The CHAIRMAN: I am returning to you Mr. Grégoire. Your opinion was not couched in a way that put it forward in perpetuity in the future.

Mr. PALMER: The opinion was, that there would be no singling out of this—

The CHAIRMAN: I am sure you did not venture to suggest to your client that the Canadian law might not possibly be changed some time in the future.

Mr. PALMER: I am quite sure. I did not, no. But, if I had been asked the question at the time, and I think, as a matter of fact, I was asked at the time, I would have said, as I did say, that I thought it very unlikely that there would be any singling out of a particular bank for—I am going to use this word discriminatory again, even though we are not in that phase yet—discriminatory treatment.

Mr. CASHIN: You were asked the question?

The CHAIRMAN: No, Mr. Palmer was answering me; he did not.

Mr. CASHIN: Yes, but he said that he was asked.

Mr. PALMER: I said, if I were asked the question.

Mr. CASHIN: I thought you said, you were asked the question.

Mr. PALMER: I was not asked the question whether the charter of the Mercantile Bank would be, or might be, revoked. We were discussing the upcoming revision of the Bank Act and in the course of that discussion I recall that I voiced the opinion that I thought it very unlikely that that kind of action would be taken.

Mr. CASHIN: But was this in relation to any reference to foreign ownership?

Mr. PALMER: Not that I recall.

Mr. GRÉGOIRE: Mr. MacFadden, in your own brief, after the visit to Mr. Gordon, you say that Mr. Rasminsky raised the same questions as Mr. Gordon, and you say in (b):

> The confidential nature of the relations of the Governor with the Canadian banks would be disrupted by the presence of a subsidiary of a large American bank—

You use the word "disrupted," which is a very strong word, and after receiving an opinion of the Governor of the the Bank of Canada, using words such as "disrupted" and advising you to meet with the Minister of Finance, you can now tell us it was only a courtesy visit, even after those words and this advice.

Mr. MACFADDEN: The word "disrupted" was my word.

Mr. GRÉGOIRE: You use it; you said that

> The confidential nature of the relations of the governor with the Canadian banks would be disrupted—

And you said previously:

> —raised the same questions as had been previously raised by Mr. Rasminsky.

He raised that. So Mr. Rasminsky did not use this word?

Mr. MACFADDEN: I do not recall precisely which word he used. The word "disrupted" is my word. This is my memorandum of my recollections or comments on what was said.

Mr. MACALUSO: It conveyed that impression, Mr. MacFadden.

Mr. MACFADDEN: It conveyed that impression. Let me say that it was something that caused him some concern; let me put it that way. We have discussed this with the Governor since on a number of occasions.

Mr. GRÉGOIRE: Was it you that tried to organize a meeting between yourself, Mr. Rockefeller and Mr. Gordon.

Mr. MACFADDEN: Yes.

Mr. GRÉGOIRE: When did you for the first time try to have such a meeting?

Mr. MACFADDEN: On July 2, I telephoned Mr. Rasminsky and told him that we had a firm deal with the Durch and Mr. Rockefeller and I would like to come up to see him and at that time the minister.

Mr. GRÉGOIRE: You had no news about this meeting before which date?

Mr. MACFADDEN: Not till the 16th of July.

Mr. GRÉGOIRE: Before or after the approval by the board of administration.

Mr. MACFADDEN: The appointment was made by Mr. Rasminsky on the 16th and he so advised me by telephone. On the 16th I wrote a confirming note to the Minister, confirming the appointment made by Mr. Raminsky for the 18th.

Mr. GRÉGOIRE: Before or after the approval by the board of administration.

Mr. MACFADDEN: I know nothing about that, or when the board was meeting. I know nothing about it.

Mr. GRÉGOIRE: But you found it necessary to ask legal advice of lawyers before meeting the Minister of Finance?

Mr. MACFADDEN: No, we asked advice of our lawyers before we even negotiated with the Dutch.

The CHAIRMAN: I recognize Mr. Langlois.

Mr. LANGLOIS (*Mégantic*): Mr. MacFadden, with respect to this brief which you had submitted, I presume, when you returned to United States and went to the board of directors, on your meeting with Mr. Gordon on July 18, 1963, after all the different conversations and meetings you had dating back from June 20, you come out and write out a pretty plain statement here about how the Canadian government felt on this whole thing. First of all, the Governor of the Bank of Canada had stated his opinions and on July 18 after your meeting with Mr. Gordon, you write "Mr. Gordon knew of our plans" and so on and so forth and this is where the (a) and (b) come in with his objections that

> This action of ours would open the flood gates for charter applications by other American banks,—

You say that furthermore

> Mr. Gordon admitted that there was nothing the government could do to prevent our proceeding with the plans with the present law, but because of a loop-hole in the present Bank Act—

I do not know how he said it, but this is what you wrote:

> —because of a loophole in the present Bank Act whereby no provision had been made to prevent foreign ownership of a chartered bank.

After telling you all this, he said some more. This is on July 18, and I must say you had an even better insight than we did, because we waited until the 22nd of September to hear anything about it. You go on to say:

> We were reminded that all banks charters expire with the old Bank Act and he made it clear that possibly the Mercantile charter would not be renewed.

He made it clear,—that was Mr. Gordon—

> He said the Government does not welcome our contemplated move, and he can obviously be counted on to use any influence he has to get us out, if we go ahead.

So he actually told you, you were going to get into trouble, possibly.

Mr. MACFADDEN: After we exeecuted the contract.

Mr. LANGLOIS (*Mégantic*): If you went through with that contract. You knew exactly what was coming up. If you did not, I do not know how he could have said that.

Mr. MacFadden: That was after the contract was executed.

Mr. Langlois (*Mégantic*): Yes, but even so. This was indicated prior to that by the Governor of the Bank of Canada and now, you mention today that this retroactivity seems to be—I would not want to use the word "discriminatory", because at the moment you are possibly the only foreign bank that would be affected by these changes. It might be rather difficult, but I wondered why you would not have asked for further details in this respect before signing the agreement.

Mr. MacFadden: This is almost four years ago and I just do not think it is proper to get into a discussion as to what I might have said or what the government might have said to me. My memory is not that accurate.

Mr. Langlois (*Mégantic*): No, no.

Mr. MacFadden: I was just saying this morning that I left the Governor with a very definite impression that we were not in violation of any legal requirements in Canada.

Mr. Langlois (*Mégantic*): Sure, I agree with you.

Mr. MacFadden: I asked voluntarily for the meeting with the Governor. I called him on the phone and said "I would like to come and have a private meeting with you" and I went and had a private meeting with him. I did not have to go and call on the Governor. I did not even have to go and call on the Minister. There was no reason for us to do that. We could have announced from Rotterdam that we had bought the bank, and you would have read about it in the newspapers. We do not do that with our friends. We go and tell them what we are doing and so on.

Mr. Langlois (*Mégantic*): Yes, but this is the thing, Mr. MacFadden, you could have easily done it; there was no legal point of any kind to prevent you from doing that.

Mr. MacFadden: That is correct.

Mr. Langlois: Now the only thing, as I see it, is that possibly Mr. Rasminsky was trying to give you an insight into the situation that might pop up in two or three days, that you would have to cope with, and that you are having to cope with today.

Mr. MacFadden: I did not place that interpretation on it at all. We were quite surprised with the reaction we had from the Minister, as Mr. Rockefeller has always said. I again remind you that it was not until September 22, 1964, fourteen months after we had concluded this contract, that there was any public information available in Canada as to the intentions of the Governor with respect to the control of financial institutions.

Mr. Langlois (*Mégantic*): I think that you probably just took it for granted that we were not going to do anything, or that the Bank Act would not be changed, because after this (a) and (b) situation, you say:

> This action of ours would open the flood gates for charter applications by other American banks—

Well, this would necessarily call for every Canadian institution to shout at the government and close some of the doors. You go on to say:

> The confidential nature of the relations of the Governor with the Canadian banks would be disrupted by the presence of a subsidiary of a large American bank who would perforce report all discussions to its Head Office. Concern was also expressed over the possible interference of some of our U.S. laws, such as the Clayton Anti-Trust Act.

Now, these two points alone—and I am not a businessman—would have opened my eyes. If the minister had sent me back a thing like this, I would have said, wait a minute, let us look into this thing and see where we are going to end up.

You had a good deal maybe at that time, and today you might not figure it so good. I do not know; I am not talking about the business aspect of the thing, but these are things that happen in life and sometimes even a bank has to pay out and say, well, we have made a bad deal. You did not lose face in Rotterdam, but maybe you have to face some consequences now. It is not discriminatory in any respect that I see, because this law did not exist and today it is being put on. Mr. Rockefeller brought in the example of an automobile licence a while ago, but he might have been advised that if the law changes it affects the cost of the plates; that as the car gets bigger, the plates are more expensive. He might say, I am not going to get a bigger car in that respect. They are not blocking anything out. If anybody else, or even possibly the Dutch financiers should open another bank here, they would be under the same conditions and ruling as this bank.

Mr. MacFadden: I might suggest, Mr. Langlois, that my comment, in answer to the question of our opening the floodgates for applications of charters, I do not recall that between the date of June 26, 1963 and September 22, 1964, any American Bank applied for a charter in Ottawa.

Mr. Langlois (*Mégantic*): I do not know if they would have, but if they would, the same thing would have applied.

Mr. MacFadden: I think that answers the floodgates, sir.

Mr. Langlois (*Mégantic*): One thing could happen. The opening of floodgates is Mr. Gordon's opinion, of floodgates; it is not mine, and Mr. Rasminsky's. Now, what Mr. Rasminsky, or Mr. Gordon implied by that, I do not know. Maybe they feared a flood of American banks coming in or applications for charters. I do not know what they had in the back of their minds. but they said it, and it would have caused me some concern if I had been in the same situation. I am pretty sure this law would apply to the Mercantile Bank if it were still Dutch owned. Whether it is American owned or not, does not matter. It is not the fact that it is American owned that is of principal concern.

The Chairman: Mr. Langlois I think we are getting into the area of discrimination. I realize it is not easy to keep the two issues clearly divided. As Mr. Palmer said, they do interrelate to a certain extent, but yet at the same time it should be said that there are some particular points with respect to discrimination that could be raised and perhaps we would reserve those until we deal with that subject.

Mr. Langlois (*Mégantic*): I agree with you Mr. Chairman, that they are very closely interlinked, because you hit the nail. You are either going to make a noise or put the nail down, one of the two. I cannot see how you actually separate them and talk about driving the nail and then talk about the noise.

Mr. FLEMMING: May I be permitted a supplementary on this.

Mr. BASFORD: Let us talk about the banks.

Mr. MACALUSO: Mr. MacFadden, in answer to the question of Mr. Langlois, you said that there has not been a flood tide of applications. Really on the evidence that you and Mr. Rockefeller have given today, the First National City Bank for five or six years, or maybe ten years has been investigating how to get into the Canadian banking field and I assume that you would realize that any application from an American bank would of course be turned down.

Mr. MACFADDEN: A charter application?

Mr. MACALUSO: Oh, yes, let us face it. So, therefore, when a charter became available, you took steps to acquire it and this is the way you got into it. This really answers your statement that there have not been applications. There has not been a charter of another bank available to a foreign bank. I disagree with your statement.

Mr. MACFADDEN: For one year it was possible for anyone, any foreign group to come here and apply for a charter. That is the law.

Mr. MACALUSO: That may be, but that is not the point that you made, sir. You made the point that there had not been a flood of applications and I think we all realize that if there was an originating application that First National City Bank would have made it a long time ago since Mr. Rockefeller stated earlier today that they had been trying to find ways and means to get into the Canadian field. The only way that First National City Bank could get in was to grab hold of this charter. You, yourself today stated that you rushed into it in a sense because there were five other banks after it and you were not going to let it slip through our hands, or words to that effect.

Mr. MACFADDEN: We were first in line.

Mr. MACALUSO: So these were conflicting statements, really.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary. Mr. MacFadden, are you suggesting to us that when you left Mr. Rasminsky on June 20, you were of the opinion that you had changed his mind with regard to points (a) and (b) in your paper; that you had satisfied his objections.

Mr. MACFADDEN: No, I am not implying that at all, Mr. Cameron. What I am implying is that he had raised these questions in his mind and when I left had the impression that he was not 100 per cent happy.

Mr. GRÉGOIRE: And advised you to see the Minister of Finance.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So you knew that he was still not happy when you left.

Mr. MUNRO: Mr. Langlois, may I ask just one question?

Mr. LANGLOIS: Yes.

Mr. MUNRO: Mr. Rockefeller, if you had advised the Dutch interests what you were dealing with in this transaction, that your people had consulted the Governor of the Bank of Canada and he did not seem happy with your move in this direction, and if you had—and I realize you were not in a position to, because you did not meet Mr. Gordon until July 18—advised that you met the

Minister of Finance, if you had been able to get to him earlier, and of his reluctance, would your name still have been mud, if you had not gone through with the deal.

Mr. ROCKEFELLER: My opinion is that the Dutch said, "You have made a contract and that is your problem, we will enforce it."

Mr. MUNRO: When I look back at the wording of the contract, it seems quite clear to me that it says "subject to the aproval of all governmental authorities concerned"; it does not say "subject to the laws of the countries concerned," it says "subject to the approval of the governmental authorities." And you suggest to me that if you had explained to the Dutch interests that the Canadian government was not happy with your going through with this transaction, that the Dutch interests would not have complied with your request to call the deal at an end, without any type of depreciation of your reputation.

Mr. ROCKEFELLER: I have no idea what their reaction would have been under circumstances that did not exist.

The CHAIRMAN: Mr. Munro, you are drawing to our attention the difference between the use of the word approval and the possible use of the word consent.

Mr. MUNRO: No; this calls for approval of the governmental authorities. I think it is a very significant phraseology, Mr. Chairman. I think all governmental authorities must of necessity—if I could be so bold as to render a legal opinion—certainly refer to the country in which the bank is situated. The governmental authorities to me would be the very men you went to see—one, I think, you saw a little late. The very men you went to see were the Minister of Finance of the country and the Governor of the Bank of Canada. You had the opinion of the Governor of the Bank of Canada that he was not happy. I suggest you had every indication from the past utterances of the Minister of Finance that he undoubtedly would not have been happy and had you related this to the Dutch interests, there would have been no depreciation of you whatsoever for not going through with the transaction, and that is precisely why this particular clause was worded the way it was. I would like the comments of the solicitor on that view.

Mr. BASFORD: After we have those comments, Mr. Chairman, may I point out that it is 6 o'clock.

The CHAIRMAN: Yes; thank you very much. I think we should make note that Mr. Langlois still has the floor.

Mr. LANGLOIS (*Mégantic*): I just have one question, if I could finish it. Mr. Munro has pretty well covered what I intended to say regarding agreements and those governments involved.

When Mr. Gordon mentioned this loophole in the present Bank Act, what exactly did that imply; that they were going to leave that loophole?

Mr. MACFADDEN: I did not understand what he meant by loophole.

Mr. LANGLOIS: You did not know Mr. Gordon. All I can say is that as far as that went he meant to block it. You were lucky you were not working with the Minister of External Affairs; there we could have forgiven you.

The CHAIRMAN: We will recess till 8 o'clock.

EVENING SITTING

The CHAIRMAN: We will resume our session. When we adjourned I was going to recognize Mr. Macaluso, but since he is otherwise occupied—I am sure on very important business—may I point out to the Committee that we seem to have exhausted the list of those who have indicated that they wish to say something on the first round of questioning on the issue of retroactivity. May I suggest to the Committee—and, of course, I am in the Committee's hands in this regard—that we do have some other very interesting and important topics on which some members may want to ask questions. I do not want to suggest that this be shut off, but since our witnesses cannot remain with us tomorrow or Thursday, as far as I am able to determine at the moment, and I cannot say at the moment when we can conveniently arrange to have them back, I would suggest to the Committee that any further questions on this issue be amongst the most pressing and that we attempt to pass on to the other topics.

The first name I have for the beginning of the second round is Mr. Basford, followed by Mr. Lambert.

Mr. CLERMONT: Would Mr. Basford yield the floor to me so I could ask a supplementary.

Mr. BASFORD: I could hardly do that because I have not asked a question.

Mr. CLERMONT: I yielded to you once.

Mr. BASFORD: All right; I willingly yield to Mr. Clermont.

Mr. CHAIRMAN: Yielding, depending on the circumstances, can be fraught with danger or linked with pleasure. Therefore, I think you might take into account that prognostic phrase.

Mr. CLERMONT: Thank you, Mr. Basford. Mr. MacFadden, did you prepare a memorandum after your visit to Mr. Rasminsky?

Mr. MACFADDEN: Yes, I think I did.

Mr. CLERMONT: Have you any objection to presenting this memorandum to the Committee.

Mr. MACFADDEN: I would have to produce that at a later date because I do not have a copy with me.

Mr. CLERMONT: But, you did prepare one.

Mr. MACFADDEN: Yes I did.

The CHAIRMAN: Perhaps the Clerk will take note of this, and we will ask that it be circulated amongst the members at a later time.

Mr. BASFORD: Mr. Rockefeller, going back to the memorandum which you gave me this afternoon as a result of a question, at the bottom of the first page it says—and I take it that it is your writing—

> The inference was that Rasminsky and he—

—which is a reference to Mr. Gordon,

> —were at a loss as to how to cope with this problem and preferred to avoid it by keeping us out.

That was the problem of the American banks. Then further on, on the second page, it is stated:

> It was called to our attention that the renewal of the charters of all the Canadian banks will be due for revision next year and that the one of the Mercantile Bank would not necessarily be renewed. He said that he would have no compunctions—

and I emphasize that,

> —about opposing a renewal for us having advised us so far in advance.

Further:

> He said the government looked on the transaction with disfavour and he advised against completing it.

Further, in your own memorandum you state that "His disapproval—that is, Mr. Gordon's—was very clear." Then in Mr. MacFadden's memorandum of July 18, he—again Mr. Gordon—said:

> —the government does not welcome our contemplated move, and he can obviously be counted on to use any influence he has to get us out, if we go ahead.

I suggest that the first contact you had with the Government of Canada showed you clearly and unmistakably that Canada did not want you to go ahead with this transaction. Yet in spite of that strong disapproval, which was evident to you as proven by your own memorandum, you did go ahead with this transaction.

Mr. LAMBERT: Since when does Mr. Gordon speak for Canada?

Mr. BASFORD: The question was directed to Mr. Rockefeller.

Mr. ROCKEFELLER: Mr. Basford, when the interview took place with Mr. Gordon and his associates, and Mr. MacFadden and myself, the contract had already been signed at that time, as we explained this morning.

Mr. BASFORD: It had been signed and you had gone ahead and had your Board of Directors meeting on July 16th.

Mr. ROCKEFELLER: No; I said "signed".

Mr. BASFORD: It had also been approved by the Board of Directors.

Mr. ROCKEFELLER: I am not clear of the sequence of that because there have been many dates. But when we saw Mr. Gordon the contract had been signed and was in effect.

Mr. BASFORD: Yes. My question, sir, was that on your first contact with the Government of Canada—

Mr. ROCKEFELLER: That was my first contact, yes.

Mr. BASFORD: —it became clearly evident to you that this was a move or a deal that the Government of Canada, in your own words, through its Minister of Finance, would do all that it could to stop.

Mr. ROCKEFELLER: Mr. Gordon made that very clear.

Mr. BASFORD: Yet you chose to go ahead with it.

Mr. ROCKEFELLER: Our hands were tied; we were bound at that point. We had made an honourable contract.

Mr. BASFORD: Did it never occur to you to determine this position before you either signed the contract or had your Board of Directors meeting on July 16th?

Mr. ROCKEFELLER: We were advised it was not necessary, sir.

Mr. BASFORD: This was the legal advice you got?

Mr. ROCKEFELLER: We received legal advice from our Canadian counsel and also Mr. MacFadden's opinion from his conference with Mr. Rasminsky, and whether he interpreted that correctly or not, I cannot say. We took those two affirmative actions and thought we were doing the proper thing at that time.

Mr. BASFORD: It is with real regret that I say this, but I find it very difficult to believe that Citibank was not aware of the political repercussions that this move would occasion—

Mr. ROCKEFELLER: You are entitled to your opinion.

Mr. BASFORD: —and went ahead in spite of those possible repercussions hoping and believing that the State Department would rescue them if need be.

Mr. ROCKEFELLER: I can assure you that we were not relying on the hope of the State Department.

Mr. BASFORD: When did you start to rely on the State Department?

Mr. ROCKEFELLER: We did not rely on the State Department. The State Department injected themselves into this. We did not call on the State Department.

Mr. BASFORD: The Board of Directors came to its decision on July 16th as a result, you told me earlier, of a report and recommendation that you made to the Board of I.B.C. How familiar were you; personally, with this transaction?

Mr. ROCKEFELLER: I would say I was very familiar with it. I did not have at my fingertips all the details that Mr. MacFadden and Mr. Clifford had but I was in touch with the negotiations.

Mr. BASFORD: At this point you must have had a good many written reports and memoranda coming across your desk.

Mr. ROCKEFELLER: No, it was not of that consequence. It was not that complicated. There may have been one memorandum. It was an open and shut case. It was easy.

Mr. BASFORD: Well, you say there may have been one memorandum. Are you prepared to produce the memorandum and the reports which came to your desk recommending acceptance of this transaction?

Mr. ROCKEFELLER: Yes. The report that is in the records of the I.B.C.?

Mr. BASFORD: Yes, or Citibank.

Mr. ROCKEFELLER: Yes. We said that this morning.

Mr. BASFORD: Or Citibank.

Mr. ROCKEFELLER: Well, it was I.B.C. that made this purchase.

Mr. BASFORD: Thank you.

Mr. PALMER: Mr. Chairman, may I interject for just a moment.

The CHAIRMAN: Yes.

Mr. PALMER: I do so with some hesitation. I would like to suggest to the Committee that the issue involved here is really very simple. A great deal of the

discussion has revolved around the question of, as I said in my submission this morning, who said what, to whom, when? I do not think that is the issue at all. I suggest to you that the issue is as simple as this: Is what is set out in clause 75(2)(g), which applies only to the Mercantile Bank, the fair thing for Canada to do?

Mr. BASFORD: Having interjected, sir, it is unfair on the basis that it is discriminatory or that it is retroactive?

Mr. PALMER: I got tangled up two or three times today by trying to combine the two ideas and I do not think you can separate them; it is both.

Mr. BASFORD: Yes, but for the moment we are dealing with retroactivity.

Mr. PALMER: Well, I cannot separate them, Mr. Basford.

Mr. BASFORD: Well, I suggest that if someone did not take note that certain action would be taken it would have a good deal of bearing on the equity involved or the degree of fairness; and your two memorandums of July 18th, and Mr. MacFadden's and Mr. Rockefeller's of July 19th, clearly show to me that Citibank and I.B.C. did not take note of what the consequences of their action would be.

Mr. PALMER: Mr. Basford, although I would prefer not to try to differentiate too much between discrimination and retroactivity, I submit again that the section is retroactive in as much as it attempts to reach into the past and attacks one Canadian bank only in a way that was not envisaged at the time when the bank was incorporated, at the time when the former owners acquired the shares of the bank and that it was not forbidden or restricted by any provision of Canadian law.

Mr. BASFORD: Well, we do not want to go into that at this time. I do not know whether or not you were the solicitor for the bank at the time of its incorporation,—

Mr. PALMER: I was not.

Mr. BASFORD: —but if you have read the reports and are familiar with the bank you will know that it received its charter principally on the undertaking that it was going to be a small foreign bank which wanted three branches in Canada to complement its international services.

Mr. PALMER: I was not counsel at the time of the incorporation of the Mercantile Bank.

Mr. MONTEITH: May I ask Mr. Basford if that information will be filed?

The CHAIRMAN: Are you referring to some hearings or debates in the Senate or the House of Comons?

Mr. BASFORD: Is that question directed to me?

The CHAIRMAN: Yes. I think Mr. Monteith wants to know the source of your information.

Mr. MONTEITH: I want to know the source of your information concerning Mercantile when it was founded.

Mr. BASFORD: The officials of the Mercantile Bank of Canada.

Mr. MONTEITH: Have you any documentary proof?

Mr. BASFORD: I think that the hearings indicate that. I cannot prove that by documents at the moment, Mr. Monteith, but I will be happy to look up the records for you.

The CHAIRMAN: I am sure we can check into that.

Mr. LAMBERT: As a matter of record, Mr. Chairman, there were no minutes of the hearings before the Senate Committee nor the Commons Committee at the time of the incorporation of the Mercantile Bank of Canada.

Mr. PALMER: Mr. Chairman and Mr. Basford, to my knowledge there were no restrictions in the Bank Act or in the charter of the Mercantile Bank at the time it was incorporated.

Mr. BACHAND: Mr. Chairman, may I just add one word? Was the Canadian government's policy so well known publicly that we should have been aware of it or was it only in September 1964 that it was stated by the Minister in the House of Commons? My first recollection, officially, of any public statement was by the Minister on September 22, 1964 and not before that.

Do you think, gentlemen, that any foreigner between July 1963 and September 1964, could have bought on the exchange control of, let us say, one of the smaller banks by paying the price without having violated at all the—

Mr. LAFLAMME: Nobody can test that.

Mr. BACHAND: Yes; we say that was official government policy.

The CHAIRMAN: Mr. Bachand, I think the point you are making, has been brought out. I think the issue is expressed in part by Mr. Palmer and if I may phrase it somewhat differently: parliament having spoken in one way some years ago, is a subsequent government and a subsequent parliament bound in perpetuity by that statement of policy. That is one thing which this Committee has to consider and make a recommendation on. That is one aspect of the matter.

Mr. PALMER: I do not say, Mr. Chairman, that one parliament is bound by what happened years ago. What I am suggesting is that in considering this matter, it should consider two things: is is necessary, and is it fair?

The CHAIRMAN: To whom?

Mr. PALMER: To one Canadian corporation.

The CHAIRMAN: What about the general public's interest?

Mr. PALMER: As I said this morning, I am very much in favour of the proposition that the control of Canadian banking should be in Canadian hands, but the assets of Mercantile represent less than one per cent of the total assets of all the Canadian banks.

The CHAIRMAN: Can you undertake on behalf of your clients that this will remain this way?

Mr. PALMER: No, I certainly will not; but I do not see that any serious, dire consequences would ensue by allowing Mercantile to proceed in the normal way. That is my submission, Mr. Chairman.

Mr. CLIFFORD: I might also say, Mr. Chairman, if I may, that the competition is very, very tough.

Mr. GRÉGOIRE: May I ask a question?

Mr. BASFORD: Mr. Chairman, I have completed my questioning.

Mr. LAMBERT: I would like to come back to this rather notorious meeting of July 18. Could you infer from Mr. Gordon's intimation to you whether he had discussed this matter with his cabinet colleagues? Did he indicate to you that it was the opinion of his colleagues and himself or that if was his own opinion?

Mr. ROCKEFELLER: I did not get any indication whatsoever that he had discussed it with his colleagues. Mr. MacFadden was there also so you might ask him the same question.

Mr. MACFADDEN: I think he referred to the government; that is in our memorandum.

Mr. LAMBERT: He said "the government"?

Mr. MACFADDEN: The government.

Mr. LAMBERT: I see. Was there any indication that the former Dutch owners had discussed the matter with Mr. Gordon, the Governor of the Bank of Canada or any other official of the government? Was this disclosed at all?

Mr. MACFADDEN: I recall no—

Mr. ROCKEFELLER: You might ask Mr. Bachand that as he was a director of the bank.

Mr. BACHAND: To the best of my recollection, Mr. Chairman, I think that today I said that the Dutch at no time were told by either the Governor or by the Minister not to sell to this one or that one; there were no restrictions on the sale of the shares.

Mr. LAMBERT: Had they discussed with the Governor the possibility of a sale?

Mr. BACHAND: I must hesitate. It should be assumed that it was well-known because the bank had been for sale for a while and some new partners or purchasers were sought. I might add, Mr. Lambert, that two Canadian groups made bids for the bank.

Mr. LAMBERT: I see. Therefore, we might say that in the market place it was known that the Mercantile Bank was up for sale?

Mr. BACHAND: It was known on the street, sir.

Mr. MACFADDEN: It was widely known.

Mr. LAMBERT: I have no other questions.

Mr. LAFLAMME: Am I right, Mr. Chairman, in saying that we are now on the discrimination issue?

The CHAIRMAN: If I may express my own view, the Committee, after today's efforts are completed, may feel that they should have spent at least some of the time available on some of the other issues which may be of interest to them. Although I am in the hands of the Committee in this regard, members may wish to consider whether they really have further specific questions.

Mr. LAFLAMME: I think, Mr. Chairman, that if there is any retroactivity, it is part of discrimination.

Mr. BASFORD: Mr. Chairman, I move that we go on to the next point, which is discrimination.

Mr. CLERMONT: Do you not think, Mr. Basford, we should proceed with general questions because we do not know when these people will be able to come back.

Mr. BASFORD: I understood, sir, that the Chairman had worked out how we were going to proceed and I was moving that we now go on to the second state of the proceedings the Chairman had in mind.

The CHAIRMAN: I worked out this suggested agenda with the hope or thought at the time that we would move along a little more quickly than we have.

Mr. MONTEITH: That is being optimistic, Mr. Chairman.

The CHAIRMAN: That is right. If we wish to go on beyond 10 o'clock, can you gentlemen remain with us for some period?

Mr. ROCKEFELLER: Yes.

The CHAIRMAN: Would you be willing to sit past 10 o'clock?

Mr. MONTEITH: How much after?

The CHAIRMAN: We will see how we get along.

Mr. MONTEITH: If you want to sit until midnight, I would not be willing.

The CHAIRMAN: I am not suggesting that but let us try and proceed along these lines.

Mr. OTTO: Mr. Chairman, may I ask a supplementary to Mr. Lambert's question.

The CHAIRMAN: Which of Mr. Lambert's questions?

Mr. OTTO: I want to clarify one point.

The CHAIRMAN: Before you do that, Mr. Otto, I think we should work out what your procedure is going to be.

Mr. LIND: Mr. Chairman, I think we should go on because if they are only going to be here tonight, we should allow a general coverage of the situation.

The CHAIRMAN: Is the Committee in agreement that we should use the remaining period today without attempting to adhere strictly the order of topics that we attempted to set out this morning?

Some hon. MEMBERS: Agreed.

Mr. MACKASEY: Mr. Chairman, would you define my position here so I will know whether or not I can participate?

The CHAIRMAN: Under the rules, members who are not formal members of the Committee are able to participate except that they cannot move motions or amendments or vote and so on. They are also subject to the decision either of the House or of the Committee itself that priority be given to the formal members of the Committee who have the responsibility of taking decision by way of recommendations to the House. We have attempted to follow this approach, I think with some modest success up until now. I think the approach we should take if

we are moving now to general questions, is that I recognize Mr. Laflamme, as I started to do, and so that there will be no suggestion that some people, even though they are not formal members, have not had an opportunity to raise a question that really presses upon them perhaps we will give them an opportunity. Is that satisfactory to the Committee?

Some hon. MEMBERS: Agreed

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think there are some of us who are on the Committee who have some questions we want to ask but we have been following your suggestions and refraining from asking them on anything but the question of retroactivity. I do not think we should be shut off in this way. I think that we should be given priority in the putting of questions we want to bring up. I am sure that most of us will take care not to use up too much time so as to leave as much time as possible for those who are not members of the Committee who wish to ask questions.

The CHAIRMAN: I do not want us to get bogged down on this issue but I want to make clear, as far as I am concerned, that I am going to continue to give priority to the regular members of the Committee. However, in an attempt to be fair—and usually under those circumstances, one gets criticized by both sides—I thought we would give Mr. Mackasey a brief opportunity because he has been very anxious to ask some questions.

Mr. COWAN: I have been here all day—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Some of us have been here all day.

Mr. COWAN:—and I have not asked a question yet.

Mr. MACKASEY: On a point of order, I would like to make one point.

The CHAIRMAN: We have not been recognizing points of order from non-members of the Committee. Perhaps the best thing to do would be to proceed with Mr. Laflamme and we will work you in due course.

Mr. LAFLAMME: Mr. MacFadden, when you deal in your brief with the question of discrimination, you surely mean that your bank should receive different treatment than other Canadian banks?

Mr. MACFADDEN: That is right.

Mr. LAFLAMME: How can you explain that? If you read clause 76 of the proposed legislation, you will note that Canadian banks have to sell the shares they have in other corporations, up to 10 per cent, but you, as another bank, can have only one corporation, being the owner of 25 per cent of the total cash value or total shares. Do you think that this is discrimination against Canadian banks or against Mercantile?

Mr. MACFADDEN: This is discrimination against the Mercantile Bank.

Mr. LAFLAMME: Because you will have to sell some of your shares to Canadian owners?

Mr. MACFADDEN: No.

Mr. LAFLAMME: You do not want to?

Mr. MacFadden: No, because we are restricted in the taking of deposits and that restriction does not apply to any other Canadian chartered bank. We are restricted to 20 times our authorized capital.

Mr. Laflamme: Yes, but who told you, if anyone, that you would be refused if you ever asked that your authorized capital be increased?

Mr. MacFadden: That question has not been asked.

Mr. Laflamme: You never asked for this. If you asked for an increase in your authorized capital and got it, would you still feel that there was discrimination?

Mr. MacFadden: Very definitely.

Mr. Laflamme: Why?

Mr. MacFadden: Because we still have this restriction that is lying over us, which is a legislative restriction against our growth regardless of whether we apply and are granted an increase in our authorized capital. How many times do we have to come back to the well? We are still dependent upon a decision of an administrative member of the government as to whether or not the increase will be granted. I cannot tell you and you cannot tell me who the Minister of Finance is going to be eight years from now. I do not know who he is going to be.

Mr. Laflamme: Under the new powers that will be given to the Canadian banks under this law you, as the Mercantile Bank, will be able to sell debentures, like the others?

Mr. MacFadden: Yes, I assume so, but again it would be listed under our liabilitées which include the shareholders equity that we discussed this morning.

Mr. Laflamme: You would be authorized, like every other bank, to undertake business in every province?

Mr. MacFadden: We would hope that as a chartered bank we would be entitled to the same privileges as the other banks have.

Mr. Laflamme: Is there anything in this law that would prevent you from doing so?

Mr. MacFadden: No, except that if we opened a new branch we would hope that we would gather some deposits, and now we are restricted from taking deposits.

Mr. Clifford: You mentioned, sir, the subject of debentures. If it did issue debentures that would have to be included in the formula, so there would not be much incentive to issue them unless we have a substantial increase in authorized capital.

Mr. Lambert: If I may make a correction, I do not think the limitation is in respect of deposits; it is all liabilities.

Mr. Clifford: That is right.

Mr. Lambert: It is your capital liabilities.

Mr. Clifford: So all our capital is added in there also—our equity.

Mr. Lambert: It doubles up. It is far less.

The Chairman: I think Mr. Lambert is right in that clarification.

Mr. LAFLAMME: Under this bill you will be authorized to receive deposits from Canadians and receive guarantees such as mortgages like every other bank. The only thing that could prevent you from growing as you say, is that there will still be a limitation of 25 per cent.

Mr. MACFADDEN: Clause 75 (2)(g) is the discriminatory legislation.

Mr. LAFLAMME: But actually you have much more than that?

Mr. MACFADDEN: We have much more?

Mr. LAFLAMME: At this present stage?

Mr. MACFADDEN: We are a little over it now, yes.

Mr. LAFLAMME: That is all.

The CHAIRMAN: Mr. Cameron is next, followed by Mr. Clermont.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. MacFadden or Mr. Rockefeller, on page 7 of your brief you speak of a discriminatory feature that is directed solely against the Mercantile Bank. Have you examined the special provision for the Mercantile Bank in clause 56(2) which specifically exempts you from the provisions of clause 53 which limits all other Canadian banks in the way of share ownership to 10 per cent for any individual and 25 per cent for a total of foreign ownership.

Mr. MACFADDEN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You see that you have a special provision of exemption. Would you say that was discrimination against you or discrimination in your favour?

Mr. MACFADDEN: Mr. Clifford will answer that question.

Mr. CLIFFORD: The point you raise is a good one. I think it is clear in that clause that the government has taken affirmative action to state that these clauses do not apply to the Mercantile Bank on a retroactive basis. I think it also says that all Canadian banks who might, at September 1964, have more than 25 per cent foreign ownership are also not being treated on a retroactive basis. I think it says that as their shareholdings decline the lower percentage will apply. I do not know for a fact whether any of the other Canadian banks do have more than 25 per cent foreign ownership or did as of that date. But, the clause was put in there to protect all banks, including ourselves, who had more than 25 per cent foreign ownership as at September 1964.

Mr. MACFADDEN: Therefore it is not discriminatory because it applies equally to all the banks.

Mr. CLIFFORD: And it was not done on a retroactive basis.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But it does not apply to all banks. Clause 56(2) very clearly gives a special exemption which can apply only to the Mercantile Bank.

Mr. CLIFFORD: That is quite correct, sir.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The other provision you spoke of with regard to the foreign ownership at September 1964, I think it is—

Mr. CLIFFORD: I think that is the trigger date.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In this case the share has to be held by a Canadian resident in right of or for use or benefit of a non-resident. But a non-resident is still prohibited except within the limits specified of a total of 25 per cent share ownership of all other Canadian banks. Now the question, it seems to me, that we or you have to decide is whether you would like to have both these provisions wiped out? Would you like to have the discrimination against you and the discrimination in your favour wiped out? There have been several statements from you gentlemen that you are a Canadian bank, a Canadian company and you wish to operate within the confines of the Canadian law. Now, here is your problem, I think: Are you prepared to operate within the confines of the Canadian law and therefore agree to have both these clauses deleted with, perhaps, the sort of provision that we made for the Bank of Western Canada, a period of ten years in which the National City Bank of New York could divest itself of all but 10 per cent of its holdings. What would your reaction be to that, Mr. Rockefeller?

Mr. ROCKEFELLER: I am not familiar with these other sections that you have just quoted. I would prefer that Mr. Clifford answer as I never have heard of those sections.

Mr. CLIFFORD: Your question, as I understand it, is whether or not we would suggest the elimination of one clause or both clauses. The only clause we are objecting to is clause 75(2) (g).

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The one that discriminates against you but not the one that discriminates for you?

Mr. CLIFFORD: I do not think that discriminates—well, it does. What it really does is say that the law is not retroactive.

The CHAIRMAN: It also says that you will be the only bank which can be held 100 per cent by one entity which is a non-resident.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The only bank that will have the benefit from this.

The CHAIRMAN: Is any other bank going to be allowed at present or in the future that privilege if this law is passed?

Mr. CLIFFORD: Not under this legislation. But the bank was owned 100 per cent by foreign interests and that ownership was transferred to another foreigner.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There is another question in that connection that I would like to ask you. Has it not occurred to the American principals in this business that there is a very logical reason for the comparative equanimity with which the Canadian government of the day viewed a foreign incorporation when it was a Dutch incorporation and at the same time viewed with a certain amount of misgiving when that foreign ownership was transferred to the most powerful bank, I believe, in the most powerful economy in the world, in view of the considerable misgivings Canadians are now having over the volume of American ownership of our industries and our resources. Would it not have occurred to them that it is reasonable there is nothing really inconsistent with that attitude? Has that never occurred to you?

Mr. ROCKEFELLER: That was strictly between us and the Dutch. I mean why?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There is a considerable difference between the United States and the Kingdom of the Netherlands, Mr. Rockefeller, and I may say, considerable difference between their financial institutions and the most powerful financial institution of the most powerful nation in the world.

Mr. ROCKEFELLER: We will disclaim the adjectives regarding our bank; you can call our nation whatever you want.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, whatever it is. But I do not think you can disclaim, with regard to your nation, its position in the world which naturally causes some misgivings on the part of small countries such as Canada. It seems to me that this is one point that you should have borne in mind and not have based some of your argument on the fact that this bank was already foreign-owned. It was foreign-owned by interests that could not cause very much misgiving on the part of the Canadian government or the Canadian people, and the situation might very well change when that ownership changed.

I would like to ask Mr. Rockefeller another question. It has been brought out here that it is not possible for the American governmental authorities to grant to a Canadian bank the privileges that you people are demanding from the Parliament of Canada.

Mr. ROCKEFELLER: We are not demanding anything.

Mr CAMERON (*Nanaimo-Cowichan-The Islands*): Well, then you are begging for them, if you wish, or pleading for. You will agree that it is not possible for the American authorities to give a Canadian bank reciprocal treatment?

Mr. ROCKEFELLER: I disagree with you. Let me explain. The American authorities will grant to Canadians or the nationals of any other country the same rights they grant any United States bank. There is no discrimination between a foreign bank and a United States bank. Now when we come to this country you make distinctions between your banks and a foreign-owned bank. We do not make that distinction.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is not the question I asked you, Mr. Rockefeller.

Mr. ROCKEFELLER: When you come to branches there are some differences, technical differences.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I should say they are very vital differences, extremely vital differences: the American authorities are not able under your legislation and I presume under your constitution, to grant to a Canadian bank the rights that you are here asking from the Canadian Parliament for your bank as a foreign-owned bank.

Mr. ROCKEFELLER: Nor to a domestic-owned bank?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But you cannot grant it to us so, therefore, there can be no reciprocity in that way?

Mr. ROCKEFELLER: In that respect.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No. There could, however, be some reciprocity in the field of according—this is a suggestion I would be

quite prepared to make in the House of Commons or here in the committee—some legislation that would enable American banks to establish in Canada the same sort of agencies that are now established by Canadian banks in New York and other parts of the United States.

Mr. ROCKEFELLER: Agencies or branches or subsidiaries; they can do any one they want.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are not your agencies, your branches and your subsidiaries confined to one state?

Mr. ROCKEFELLER: Well—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I mean they have to be established under the aegis of a state government?

Mr. ROCKEFELLER: No. They can be established either under a state charter or under a national charter but can only operate in one state—either way.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes. Now any agency provisions that we might make in Canada would, I presume, apply to the whole of this country.

Mr. ROCKEFELLER: I would not know.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think you can take it for granted that if legislation authority was given in Canada an agency of the First National City Bank of New York would be able to establish an agency in every one of our major cities. Now would that not seem to you to be a more reasonable reciprocity between your country and mine?

Mr. ROCKEFELLER: No, because an agency is limited.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. ROCKEFELLER: We would allow your banks, the Canadian banks, to come in with an agency or with a branch or with a subsidiary.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But you would not allow them to come in on the basis that you wish to come into Canada.

Mr. ROCKEFELLER: On a nation-wide basis.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No. You could not.

Mr. ROCKEFELLER: No; you have made that point.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, you could not. Again, I come back to this: Would not an agency, which actually would be a more valuable agency than any Canadian bank can establish in one state of the union with the exception of the State of New York because that is the money market of the world, be fair reciprocal treatment?

Mr. ROCKEFELLER: I do not think so because an agency is limited, you see. I think some of the Canadian banks—I am not sure about this—have branches or subsidiaries in the United States. Do they want those taken away from them?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do you want them taken away?

Mr. ROCKEFELLER: No; we welcome competition of any kind.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Frankly, I am not particularly concerned about the Canadian banks.

Mr. ROCKEFELLER: I think you are discriminating.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have an idea they are well able to look after themselves.

Mr. ROCKEFELLER: We are a Canadian bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then if you are a Canadian bank, Mr. Rockefeller, why have you objections to operating under the Bank Act, as all other Canadian banks have to operate?

Mr. ROCKEFELLER: Because we think this proposed Bank Act discriminates against only us.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But it does not discriminate against a Canadian bank.

Mr. ROCKEFELLER: We think it does.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You say you are a Canadian bank.

Mr. ROCKEFELLER: We think it does, and that is the argument.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I must say that I find your argument very unpersuasive, Mr. Rockefeller. On the one hand you state very loudly: We are a Canadian bank, and the next breath you say: We do not want to operate under your Canadian banking legislation.

Mr. ROCKEFELLER: Let us make one point. Is not Mercantile chartered under Canadian law?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mercantile is chartered under Canadian law.

Mr. ROCKEFELLER: All right, it is a Canadian bank. There is no argument about that, right?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It depends on your definition of a Canadian bank?

Mr. ROCKEFELLER: Well, it is a Canadian chartered bank; we admit that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): All right.

Mr. ROCKEFELLER: And as such may it operate like the other chartered banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): All right; then if it operates like the other chartered banks you must divest yourself of 90 per cent of your ownership and you must abide by all the other provisions of the act. I do not see how you can get around that; you cannot have it both ways. You cannot be a Canadian bank and want special treatment.

Mr. ROCKEFELLER: Well the special treatment applies to us because the shares of Mercantile happen to be owned by one owner. That is what you are objecting to.

Mr. LAFLAMME: But the other banks cannot have that.

Mr. ROCKEFELLER: They could have that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They cannot because that is forbidden by law.

The CHAIRMAN: Mr. Rockefeller, are you not aware that under the proposed bank act, aside from the exemption given to yourselves, no other bank chartered in Canada will be permitted to have more than 10 per cent ownership by any individual and 25 per cent ownership of associated non-resident individuals?

Mr. CLIFFORD: If I might ask a question at this juncture, is there any other Canadian bank which have more than 10 per cent ownership in the hands of one individual? I do not believe so.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not think that affects the matter anyway. These are the provisions under which banks operate in Canada. You have told us you are a Canadian bank; you want to be treated like all other Canadian banks, but the moment we suggest to you that the provisions of the Canadian Bank Act should apply to you in all particulars you immediately want special treatment—and I suggest to you that we are giving you special treatment with regard to the foreign ownership of the shares of the Mercantile Bank, special treatment which is not given to other banks. At the same time we are placing limitations on you that are not placed on other banks. Now, if you really are a Canadian bank and wish to operate within the Canadian banking laws then I would have thought that you would have agreed to have both these sections wiped out.

Mr. ROCKEFELLER: To divest ourselves of 90 per cent of ownership changes the situation.

Mr. LAMBERT: I have a supplementary to Mr. Cameron's question. When you say, "like all other Canadian banks" that is not technically correct because the Western Bank has 50 per cent or 51 per cent for a period of up to ten years.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It has to divest itself over a period of years.

Mr. LAMBERT: Of ten years.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Ten years.

Mr. LAMBERT: That is right. Perhaps the owners of Mercantile might consider that aspect, that if they want to operate as any other Canadian bank they have ten years.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am quite sure no one would object to a ten year period being allowed for this divesting of foreign ownership. But as far as I can understand, you do not wish to divest yourself?

Mr. ROCKEFELLER: No.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Unfortunately, Mr. Rockefeller, you cannot stand in two positions at once. You are not a Canadian bank like other Canadian banks and to ask us to give you still more special provisions while you are loudly claiming you are a Canadian bank would, I think, be an insult to the Canadian parliament. I for one would oppose it very strongly. Apparently, as I say, you are unable to make up your minds whether

you are a Canadian bank or whether you are a foreign bank which wants to have the name of a Canadian bank and special privileges. I point out to you that you already have a special privilege, and you already have also, of course, a special disability. One follows from the other; both can be eliminated but not one.

Mr. BACHAND: May I say a word, Mr. Chairman, on this. I beg to differ with you, Mr. Cameron. I do not think, as a Canadian citizen, that any special privileges were granted to the Mercantile Bank. Mercantile was given a right, like every other bank, in 1953. They continued that right. They are not asking for a special privilege. They are only asking that they not be deprived of the ordinary right that they had and are continuing to have.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Bachand, may I point out to you that we are in the process of revising the Bank Act. Every one of the charters of the existing chartered banks of Canada are being revised and they are having removed from them by this act some of the privileges they exercised up to this time. So I would suggest that this is a special privilege you are requesting when you ask to be eliminated from the provisions that govern other chartered banks in Canada. The other chartered banks—and they have growled about it, very politely,—have objected to some of the provisions that we are putting in the act because it will curtail some of the rights they have enjoyed in the past.

Mr. BACHAND: If I may disagree with you, Mr. Cameron, I think that the other banks had the right to have more than 10 per cent of the shares but they never exercised that right. The Mercantile had it and continued to exercise it. They just ask in all fairness not to be deprived of the right. They are not asking for a privilege. That is why I say that if it applies only to one case it is discrimination, if you deprive them of that right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As far as I know we have not had any evidence, Mr. Chairman, as to the shareholding position of the chartered banks in Canada. We may have had but I do not recall it.

The CHAIRMAN: Not in this context.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Actually I do not know what the shareholding position of the chartered banks in Canada is. There may be some who have allowed more than 25 per cent of their shares to fall into foreign hands, but I do not know.

Mr. ROCKEFELLER: In effect, you would be changing the ownership of Mercantile and not changing the ownership of the other chartered banks because they are not affected.

Mr. CAMERON (*Nanaimo-Cowitchan-The Islands*): But as I say, I do not know. It may be so but I do not know.

The CHAIRMAN: Mr. Cameron, your question period has expired. I would now recognize Mr. Clermont followed by Mr. Wahn.

(*Translation*)

Mr. CLERMONT: Mr. MacFadden, what were the total in deposits of the Mercantile Bank of Canada, at the end of the financial year, 1962, in Canadian funds and in foreign funds?

(*English*)

Mr. MacFadden: I am afraid I did not catch your question, Mr. Clermont. I think Mr. Clifford got it.

Mr. Clifford: On June 30, 1962, the total assets of the Mercantile Bank were $96,222,000.

Mr. Clermont: I am asking only for the deposits, first in Canadian funds and, second, in American funds.

Mr. Clifford: All right. Of the $96 million, $50,684,000 at that particular date was in Canadian dollar assets.

Mr. Clermont: And do you have the American currency?

Mr. Clifford: Well the remainder would be in American currency.

Mr. Clermont: $46 million?

Mr. Clifford: $46 million.

Mr. Clermont: In 1963?

Mr. Clifford: $84 million approximately.

Mr. Clermont: Of what?

Mr. Clifford: Of which $35 million was Canadian dollar assets.

Mr. Clermont: And 1965?

Mr. Clifford: I might just mention that of that total $19 million was in loans.

Mr. Clermont: And 1964?

Mr. Clifford: As at June 30 the total assets were $105 million of which $44 million were Canadian dollar assets.

Mr. Clermont: And 1965?

Mr. Clifford: $171 million total assets—this is all as at June 30—of which $75 million were Canadian dollar assets.

Mr. Clermont: And 1966?

Mr. Clifford: $225 million total assets of which $114 million were Canadian dollar assets. If I may, I might just explain the growth in assets, with capital of $10 million; when it was increased and we felt we could increase our total assets, using the traditional Canadian relationship of one part capital to twenty parts deposit—while that is not in law it is the general practice—that explains the rapid growth in assets totals between 1964 and 1965.

Mr. Clermont: Mr. Rockefeller, how many branches do you have outside of the United States?

Mr. Rockefeller: I think about 190 in round figures.

Mr. Clermont: How many are wholly-owned by your American bank?

Mr. Rockefeller: They would either be branches or wholly-owned subsidiaries. We have a few other investments but I am not including those.

Mr. CLERMONT: Have you any foreign branches wherein you hold a minority interest?

Mr. ROCKEFELLER: No. We have some investments in banks where we do not have the entire ownership. We have a 40 per cent interest in a French bank that operates in Africa. The Banque Internationale pour l'Afrique Occidentale.

Mr. CLERMONT: I was under the impression from some figures I looked over that you had about 39 branches where you had a minority interest.

The CHAIRMAN: You mean subsidiaries.

Mr. ROCKEFELLER: Branches are wholly owned.

Mr. CLERMONT: I was looking over some figures regarding your foreign operation.

The CHAIRMAN: I think what Mr. Clermont is driving at is whether you have less than majority interests in banks in other parts of the world.

Mr. ROCKEFELLER: The one in Africa I mentioned is less than a majority.

The CHAIRMAN: Are there any other you can tell us about?

Mr. ROCKEFELLER: That is the only one that is less than a majority that I can think of. We have an investment in Honduras and I think that is 51 per cent.

Mr. CLERMONT: Who is managing that bank in Africa?

Mr. ROCKEFELLER: We have one officer and the rest are either French or African.

Mr. CLERMONT: But you do not hold majority stock?

Mr. ROCKEFELLER: No; we have 40 or 41 per cent.

Mr. CLERMONT: How is it that you were satisfied to have only 49 per cent when you want 100 per cent here.

Mr. ROCKEFELLER: That was all we could get. The rest did not come on the market.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, on page 14 of the brief of the Mercantile Bank, I read the following: "With a phone call to the Mercantile Bank a Canadian businessman can obtain prompt information about markets for his merchandise at points as distant as Milan and Singapore."

Mr. Rockefeller, if the Mercantile Bank makes a telephone call to your bank or establishment in Milan and asks for information and at the same time, this bank, which is your branch has received the same request from a United States company, what is going to happen?

(*English*)

Mr. ROCKEFELLER: The information would be given to both parties.

Mr. CLERMONT: When you say that you do not laugh?

Mr. ROCKEFELLER: No.

Mr. CLERMONT: How many branches do you have in Europe, say, in France?

Mr. ROCKEFELLER: One in Paris, two in Switzerland, three in Germany, two in Belgium, two in Holland, one in Italy, one in Lebanon but that is not Europe and two in England.

Mr. CLERMONT: They all seem to be located in big centres?

Mr. ROCKEFELLER: Yes, in big cities.

Mr. CLERMONT: Have you any branch or branches in Japan?

Mr. ROCKEFELLER: Yes, four or five.

Mr. CLERMONT: Do you own them 100 per cent?

Mr. ROCKEFELLER: They are branches and branches are wholly owned; they are the same bank.

Mr. CLERMONT: I understand that in Japan ownership has to be at least 51 per cent Japanese?

Mr. LAFLAMME: In those banks you do not receive deposits from the citizens?

Mr. ROCKEFELLER: Yes. We do a complete banking business.

Mr. LAFLAMME: In all of the countries you have this arrangement?

Mr. ROCKEFELLER: Yes. I cannot think of anywhere that we do not. Taiwan has some restrictions; that is correct.

Mr. CLERMONT: In answer to a question you said that in New York state foreign banks are treated as domestic banks.

Mr. ROCKEFELLER: I said this morning that they are in some ways treated a little better.

Mr. CLERMONT: As you often mentioned, Mercantile is a Canadian bank. Did you apply to the State of New York for an agency?

Mr. ROCKEFELLER: An agency of Mercantile?

Mr. CLERMONT: Yes.

Mr. ROCKEFELLER: That would not be permitted.

Mr. CLERMONT: Why?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do you not have an agency in New York?

Mr. ROCKEFELLER: No; we could not do indirectly what we do directly. They say it is a Canadian bank because it is owned by us.

Mr. MACFADDEN: With Ottawa there to intercede for us in Washington.

Mr. ROCKEFELLER: It would not be allowed.

An hon. MEMBER: Do you think we will do a better job than the State Department?

Mr. ROCKEFELLER: We would like very much to have an office of Mercantile in Chicago, but that would not be permitted.

An hon. MEMBER: This is discrimination!

Mr. CLERMONT: And there is a limit on what a domestic bank can pay on short term deposits?

Mr. ROCKEFELLER: That is a federal regulation; it is not a state regulation. On a demand deposit that is a law; on time deposits that is a federal regulation.

Mr. CLERMONT: Was the ceiling changed in 1965, so that it now allows the domestic banks to compete more freely with the foreign agencies?

Mr. ROCKEFELLER: There are no restrictions on the foreign agencies.

Mr. CLERMONT: I know that; but you brought up the fact that the Canadian agencies in New York received favourable treatment against domestic banks because they were not restricted like domestic banks; but was it—

Mr. ROCKEFELLER: The ceiling was raised in 1966.

Mr. CLERMONT: Was it brought up to a more favourable rate?

Mr. ROCKEFELLER: Yes.

Mr. CLERMONT: This morning I think that you tried to erase from the public mind the idea that because Mercantile is wholly-owned by an American firm it would be easier for the Mercantile to obtain deposits from United States companies in Canada.

Mr. ROCKEFELLER: That has not been our experience elsewhere in the world.

Mr. CLERMONT: Yes, but what about in Canada?

Mr. ROCKEFELLER: I think it would be the same as in the rest of the world.

Mr. CLERMONT: But do you not think that, in the light of the ownership pattern of Canadian industry, it is to be expected that funds flowing in from the United States would be more readily available to you?

Mr. ROCKEFELLER: No; our experience is that subsidiaries—

Mr. CLERMONT: Yes; but your experience is with, say, Japan or Germany, which are far away from the United States. Canada is not so distant.

Mr. ROCKEFELLER: Or England?

Mr. CLERMONT: Even England is much farther from the United States than is Canada.

Mr. Chairman, this is my last question: Again I am coming back to a reply given by Mr. Rockefeller to the effect that in New York foreign banks are treated as well as, if not better than, domestic banks; but is it not true, Mr. Rockefeller, that a branch in New York state must maintain in the state assets equivalent to 108 per cent of its liabilities payable inside the state?

Mr. ROCKEFELLER: It applies to the Intra Bank; namely, the bank that is separately incorporated. I do not think that it applies to the agencies.

Mr. HARFIELD: It does not apply to agencies. It does apply—

Mr. CLERMONT: I said "branch".

Mr. HARFIELD: It applies to branches; that is correct. A branch of a foreign bank which is licensed to operate in New York is not required to place any capital in New York, but it is required to maintain certain securities, and, over-all, an amount of assets in New York which are equivalent to 108 per cent

of its liabilities in New York; so that you have, in effect, the equivalent of a capital position.

Mr. CLERMONT: Is that ratio to liabilities limited only to 12½ per cent?

Mr. HARFIELD: No, I think not; because there is no restriction at all on the increase. If, for example, you increase your deposits presumably you immediately lend out those deposits and they then become assets; so that the two go up together.

The CHAIRMAN: Mr. Rockefeller, just to be sure that I understood you correctly, you did tell Mr. Clermont that it has been your experience with your subsidiaries and branches in other countries that they are very successful in attracting deposits from American firms in those countries?

Mr. ROCKEFELLER: I said it was difficult to get American subsidiaries to do business with us in preference to the local banks. They are sensitive to this local feeling.

The CHAIRMAN: It is difficult? I thought I heard differently.

Mr. ROCKEFELLER: No; they lean the other way. They favour the foreign banks. They think it helps their public relations image.

Mr. CLERMONT: Is Mr. MacFadden in a position to say whether the Mercantile Bank makes advances or loans under section 88 in Canada?

Mr. MACFADDEN: You will have to direct that question to Mr. Clifford. He runs the books.

Mr. CLIFFORD: Yes, we do.

Mr. CLERMONT: Thank you. That is your answer, Mr. Whelan.

The CHAIRMAN: I thought Mr. Whelan had a supplementary question. I am going to recognize Mr. Wahn, but first I want to bring to your attention, gentlemen, a quotation from the Zwick memorandum, from page 2:

> In California, Washington and Illinois foreign branches were open before legislation was passed prohibiting foreign branch banking....

Would that be retroactive legislation?

Mr. ROCKEFELLER: Do you know about that?

The CHAIRMAN: I am showing Mr. Sherman—

Mr. HARFIELD: Harfield.

The CHAIRMAN: Mr. Sherman was your partner.

Mr. MACFADDEN: He died in 1910. This shows you, gentlemen, how much care you must take when you are looking at lawyers' letterheads. I can say to the Committee that you are much more substantial than Mr. Sherman.

Mr. HARFIELD: I am not in a position to speak about the laws of Washington. I do know that Illinois restricts any branches; that is to say, under the laws of Illinois a bank, even incorporated under the laws of that state, has to do business at one office. It may not have any branches or additional offices; and I believe that state law has been used to exclude the branches of any foreign banks.

In Washington I believe there is now a similar restriction.

I want to call your attention to the fact that in connection with the restriction of these states against foreign banks, when we talk about a foreign bank in New York we are talking about Connecticut, or New Jersey.

The CHAIRMAN: And we are worried about separatism.

If I may just interrupt here for a moment, it would appear from what Dr. Zwick said that there were at one point branches of foreign banks in these states and that these state legislatures then passed laws forbidding foreign branches, which, I presume, caused these branches either to go out of existence, or—

Mr. HARFIELD: If I am correct in my understanding, in Washington and in California there are branches, although now they would do not be permitted because this is knows as the "grandfather clause", and in order to avoid the sin of retroactivity these states have said, "Henceforward we will not permit any other foreign branches to enter."

The CHAIRMAN: I am informed, sir, that in California, although technically the state law permits a branch, it does so only if the branch can get federal deposit insurance, which is not possible.

Mr. HARFIELD: I believe that is correct.

The CHAIRMAN: As a practical matter then foreign branches are not permitted in California.

Mr. HARFIELD: I think that is perfectly true.

The CHAIRMAN: I am also informed, sir, that with respect to Illinois there were foreign branches, including at least one branch of a Canadian bank, which had to go out of business after this law was passed.

Mr. HARFIELD: I am not informed on that. It may be true, but I cannot affirm or deny it.

Mr. WAHN: Mr. Chairman, after the long discussion that we have had with regard to retroactivity, discrimination, punitive features and other matters, I wonder whether Mr. Rockefeller would agree that perhaps the question of substance to which this Committee should be addressing itself is whether or not it is in the interests of Canada that we should restrict foreign banks in Canada?

Would you agree, Mr. Rockefeller, that that is the basic question of substance that we should be discussing?

Mr. ROCKEFELLER: Yes; that is the question, but it is not for us to say whether you want to have international banks, or to be a world money market. That is not for us; that is for you gentlemen.

Mr. WAHN: I think, toward the end of your memorandum, you point out certain advantages which would flow from permitting—

Mr. ROCKEFELLER: If you were to ask us, we would recommend it.

Mr. WAHN: If that is the real question of substance that we should be considering, I am wondering whether it would not be desirable to withdraw these charges of retroactivity, punitive legislation and discriminatory treatment which have been made in the brief and which have taken up so much of our time. I say that, fully realizing that, to anyone who is not intimately familiar with the process of the decennial revision of the Bank Act, it might be natural

enough to make those charges in the first instance; but after the long discussion that we have had today I am wondering whether it would not be in the interests of everyone concerned to concentrate upon the question of substance rather than upon these charges which are rather inflammatory in their nature.

I will take a few moments to outline why I make this suggestion. Without going into a lot of detail, it is apparent from the answers you gave to Mr. Cameron, Mr. Rockefeller, that at least certain provisions of this long bill have been inserted for the protection of Mercantile, with which you, personally, were not familiar.

Mr. ROCKEFELLER: I agree.

Mr. WAHN: Basically, I think it is true that this bill represents the decennial revision of the Canadian Bank Act in which new rules are being laid down by the Canadian parliament to govern the activities of all Canadian chartered banks for the next ten years. It is quite apparent from clause 53 and 75, to which you have taken objection, that the basic philosophy is that in Canada, rightly or wrongly, the bill takes the position that we do not want any Canadian chartered bank to have more than 25 per cent foreign ownership nor do we want any one person to own more than 10 per cent of a Canadian chartered bank. That was the general principle and I think Mr. MacFadden and Mr. Palmer and your other experts would agree that this is the general idea.

It was recognized that Mercantile was in a special position, because at the time this bill will be enacted, Mercantile will be owned 100 per cent by National City. In order to give effect to the legislative purpose parliament could have insisted that you divest yourself either immediately, or within a reasonable period of time, of 75 per cent or 90 per cent of the ownership of Mercantile. I think you probably would have objected even more strenuously to this than you do to the present proposed legislation. This would have been consistent with the general legislative purpose.

For example, I happen to own a few shares in one of the Canadian chartered banks. If, before this legislation becomes effective, I could get together with enough fellow-Canadians who also own a few shares we could form a syndicate and perhaps accumulate 35 per cent of the outstanding shares and I might then be able to sell them at a considerable profit to the Chase Manhattan, for instance.

Mr. LAMBERT: Mr. Chairman, there is no conflict of interest here, is there?

Mr. WAHN: Not so long as it is disclosed and that is what I am doing.

As a result of this proposed legislation Canadians will no longer be able to do this. It affects all of us.

What I am suggesting, Mr. Rockefeller, is that actually the debate of parliament has gone a long way to recognizing the special position of Mercantile. What I am saying in effect is this: Please try to put yourself in the same position as all the other Canadian chartered banks; reduce foreign ownership to no more than 25 per cent. Parliament has not gone so far as to ask you to reduce the holdings of National to 10 per cent, so that in a sense you are, as Mr. Cameron has pointed out, in a better position than are other Canadian shareholders. They could have asked you to do that and can still do that. What they are saying to you, in effect, is that if you do not want to do that and if you want to retain your special position, which is different from that of all the other Canadian banks,

then the Canadian government wants to keep an eye on your rate of growth. Nobody has said that they will not permit you to grow further. You have not asked for an increase in your authorized capital. What the Canadian government is saying is, "Put yourself in the same position as are the other Canadian chartered banks and you will be treated exactly as are the other Canadian banks; but we are not going to insist that you do that. However, if you do not do it then we want to be in a position to limit your growth; we want to be a position to watch you".

Naturally you would prefer to retain the special position which you have held for some years, namely, to be owned 100 per cent by National City. There is no other bank in Canada in that position. After this legislation goes through no other Canadian chartered bank can be in that position. Obviously it would be a tremedously valuable asset if you could be the one and only Canadian chartered bank that had that special privilege.

Surely, looking at it in this way, if this is the true effect of the legislation, it would be better to accept the fact that there is nothing really retroactive, discriminatory or punitive in this legislation, but rather that this is an attempt to carry out a legislative purpose which may or may not be right. The legislative purpose, I repeat, is to try to induce all the Canadian chartered banks, including Mercantile, to get down to 25 per cent foreign ownership and, if not, to help the Canadian government to keep a rather fatherly eye on their growth. Is there anything really retroactive, discriminatory or punitive in this type of legislation?

Mr. ROCKEFELLER: In our opinion, there is. In your opinion, there apparently is not.

Mr. WAHN: In other words, you still insist, or suggest, that this legislation is retroactive, punitive and discriminatory?

Mr. ROCKEFELLER: Yes.

Mr. THOMPSON: May I ask you, Mr. Rockefeller, whether in light of the explanation that Mr. Wahn has just made, this legislation does not appear perhaps different from when you drafted your brief?

Mr. ROCKEFELLER: No; I think we knew this.

Mr. WAHN: Obviously, there has been no meeting of the minds between us on this particular point. I propose to go on and ask questions of substance which are of interest to me, Mr. Chairman, and I will be quite brief.

A comparison has been made with the Dutch ownership. I am informed that National City is approximately 17 times the size of the Dutch bank that formerly owned Mercantile. Do you agree with that? Is that more or less correct?

Mr. ROCKEFELLER: I do not know. Those figures are available.

Mr. WAHN: The Dutch bank has been absorbed by a bigger bank. The figures would be distorted at this point.

Mr. ROCKEFELLER: We are considerably larger.

Mr. WAHN: Is the National City Bank subject to United States anti-trust regulations?

Mr. ROCKEFELLER: Yes.

Mr. WAHN: We have had examples in Canada where, by acting on a parent company, the United States anti-trust division has influenced the actions of Canadian subsidiaries. Could you give this Committee any undertaking that if the United States anti-trust department issued instructions to National City with regard to the actions of the Mercantile, the Mercantile would feel free to disregard those instructions from the United States government?

Mr. ROCKEFELLER: No; but I can tell you this, that our government has endeavoured to infringe—or, at least, this is what other countries have thought—on the sovereignty of other countries where we operate branches and has asked for information on our branches and we have refused to give it to the United States authorities; and this has been upheld by the courts.

The CHAIRMAN: You refused to give what?

Mr. ROCKEFELLER: We refused to give information about business we were doing in some of our branches. The Swiss, for instance, have a secrecy law—

The CHAIRMAN: Could you direct your attention particularly to what Mr. Wahn is interested in.

Mr. ROCKEFELLER: With regard to the anti-trust laws, the answer is no, because I do not know what the impact of the anti-trust laws would be.

The CHAIRMAN: Perhaps we could ask this gentleman whose partner is no longer with us. You have more substance than your departed partner.

Mr. HARFIELD: Substance which has more spirit, though.

The CHAIRMAN: I did not know that a New York corporate lawyer engaged in these flights of wit. This is very impressive.

Mr. HARFIELD: I would like to take that question a little more broadly, if I may, Mr. Wahn, than merely the anti-trust laws because there are a series of instances—and I say this with some personal regret—in which the United States has made an effort to export its laws instead of merely its products.

The Mercantile Bank is a Canadian corporation which happens to be owned at this point by a United States corporation. The conduct of the Mercantile Bank depends upon conformity to the laws of the country where it is organized and where it does business. Its direction must be taken from its board of directors in accordance with those laws—the Canadian laws.

We have been successful, as Mr. Rockefeller has said, in a number of instances—not directly involving the anti-trust laws, but other laws of similar impact—in seeing to it that the laws of the United States do not run beyond the boundaries of the United States and that mere ownership of a foreign corporation does not subject that corporation to the impact, or direction, of the laws of the United States.

It is quite true that in respect of foreign funds control operations and the blocking laws, for instance—the anti-trust laws—there have been efforts by the United States to expand the impact of its laws beyond its territorial boundaries, but this is not a function of ownership of stock in a foreign corporation. This is a function of the relationship of the foreign corporation to the United States, because the United States cannot and does not attempt to carry out the enforcement of its laws abroad. It does not say that unless there is what it regards as conformity to them, it will deny access to its own market.

On that basis—and there are a number of warm issues on this at the present time—it does not make any difference whether a Canadian bank, for example, is owned by First National City or wholly-owned in Canada. The issue is the contact of the operations of the foreign bank with the United States. The anti-trust laws prohibit limitations on competition where they affect the domestic or foreign commerce of the United States. Beyond that they do not purport to go, and in terms of enforcement there is no basis for doing more than saying, as has been said by the courts in the Aluminum Company case and in the case of de Beer Mines and in a whole series of others, which is: "If you, the foreign corporation perform acts which have an adverse effect, in our estimation, on our foreign commerce then we will punish you if we can catch you". This is not a function of stock ownership. It is a function of activity.

Mr. WAHN: Would you not be in a much better position to resist an order from the U.S. anti-trust division if you owned only 25 per cent rather than 100 per cent?

Mr. HARFIELD: I think that probably our position would be more comfortable in that regard.

Mr. WAHN: We are anxious to make your position more comfortable.

Mr. HARFIELD: I can confirm what Mr. Rockefeller has said that there have been instances where there has been an effort, although not in the case of a subsidiary—there has been no instance that I know of where there has been an attempt by an agency of the government to force a subsidiary to conform—by, for example, the internal revenue service, through the exertion of pressure on the head office of the bank, to require action or inaction at one of its foreign branches. The foreign branch is an integral part of the corporate body, so this is really saying to Mr. Rockefeller. "You are prohibited from doing this, that or the other thing in a foreign country." Even in those instances the bank has successfully resisted because our courts have said that to the extent that compliance with an order of the United States courts would result in violation of the law in any foreign country—for example, the Swiss secrecy laws—that order is unenforceable and will not be issued.

The CHAIRMAN: Mr. Harfield, do these laws to which you have referred, the anti-trust laws of the United States and the laws dealing with foreign assets and so on, act *in personam* as well? Are there not penalties of fines or imprisonment in respect of persons resident in the United States?

Mr. HARFIELD: Yes.

The CHAIRMAN: The reason I ask you this specifically is that Mr. Rockefeller, who is a resident of New York, is also the chairman of the board of the Mercantile Bank.

Mr. HARFIELD: We had an instance in which a federal court sitting in New York ordered a branch of the bank in a foreign country to embargo a particular account maintained on the books of that branch. The court said that this order could not have the personal impact that you talk about if to comply with the order would have involved a liability at the place where the branch did business. In other words, the law of th country where the branch does business is paramount; and it is a much stronger case where it is a subsidiary.

The CHAIRMAN: I would like to ask this one question: What is the attitude of the National City Bank with respect to the United States voluntary guidelines program on the operations of its subsidiaries or its branches abroad?

Mr. HARFIELD: That is primarily a policy question and I think Mr. Rockefeller might answer it.

Mr. ROCKEFELLER: I do not think it applies to subsidiaries, but I am not clear on this. As far as the operations of our own bank in the United States and of our branches are concerned we have conformed with them. That is not an effect of law; that is on a voluntary basis.

The CHAIRMAN: You have, on a voluntary basis, complied with the guidelines?

Mr. ROCKEFELLER: Yes.

Mr. HARFIELD: As Mr. Rockefeller said, they do not apply in the case of subsidiaries because they are not regarded as United States persons.

Mr. ROCKEFELLER: In England we have conformed with the guidelines of the Bank of England.

The CHAIRMAN: If the American government extended the guidelines program to cover wholly-owned subsidiaries abroad, what would you do?

Mr. ROCKEFELLER: I think we would resist it. This question has never been raised.

Mr. CLIFFORD: We are a Canadian bank and according to the Bank Act we are run by a Canadian board of directors. We have received guidelines from the central Bank of Canada three times that I can remember in the last few years. We have observed, and intend to observe, and our board of directors would insist that we scrupulously observe, every single one of them.

The CHAIRMAN: You did not get any guidelines from the United States?

Mr. CLIFFORD: No; and we would not.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As perhaps you know, there has been a dispute lately over the handling of cheques from the American Friends Society for the purchase of drugs to be sent to Viet Nam, and one of our chartered banks appears to have run into certain trouble with the American authorities, which they have resisted. What would have been the policy of the Mercantile Bank of Canada, which you have told us is a Canadian bank, if it had been asked to perform these functions that the Canadian banks have been performing, and it had been urged by the American authorities to cease doing so? Would you have acted as this Canadian bank has done, or would you have obeyed the—

Mr. HARFIELD: Obviously I cannot answer that, sir, in terms of what the bank would do, but in terms of what I would advise them to do if they were to solicit my legal advice. I would tell them to disregard it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You would tell them to disregard the advice.

Mr. HARFIELD: I would tell them to disregard the instructions. I think that for them to attempt to propose extra-territorial sanctions is wrong, and I would defend that to my last client!

Mr. BACHAND: Mr. Chairman, may I supplement that? As one of the ten Canadian directors I can assure you that we would certainly not comply with a request from another government unless we had a decision by our board of directors. We would act solely in accordance with Canadian law.

Mr. WAHN: Bearing in mind the fact, Mr. Chairman, that the Canadian government is under an obligation to maintain its currency at a state of value in terms of U.S. dollars; in view of the fact that we are also under an obligation, as I understand it, not to exceed a certain limit of U.S. dollar reserves; and in view of the fact—

Mr. MACFADDEN: In terms of exemption.

Mr. WAHN: Yes; and in view of the fact that it is rather easy for a subsidiary of a very large U.S. owned banking corporation to get U.S. dollars from its parent company, is it not reasonable that the Canadian government should have a special concern and that they certainly should be more concerned when a Canadian chartered bank is owned by a powerful U.S. bank than the case of a Canadian bank owned by a small Dutch bank?

Mr. MACFADDEN: Mr. Wahn, may I suggest that Mr. Clifford answer this question? This has been discussed, and it has been brought out in the press. I think it might be of interest to the Committee to have that point clarified.

Mr. CLIFFORD: The guidelines which the governor set up, which I think were effective December 31, 1964—it was really a request to the banks that they strike a position as of that date and that the total deposits from U.S. residents and the total loans to U.S. residents should not be changed in a way that would work in an adverse manner as far as the balance of payments was concerned. We report our position regularly and I may say that we observe the guideline as scrupulously as we possibly can. We have never exceeded that guideline which was given to us by the governor of the central bank.

Mr. WAHN: I am not sure that I understand that. Could you explain it again, please?

Mr. CLIFFORD: I understood your question to be whether or not the Mercantile Bank had observed a guideline from the Canadian government with respect to the foreign reserves position.

Mr. WAHN: That was not my question, but it may amount to the same thing. My question was this: First of all, as I understand it, we are under an obligation not to exceed $2.3 billion in reserves.

Mr. CLIFFORD: Yes.

Mr. WAHN: We are obligated to maintain our currency at a fixed price in relation to U.S. currency, with a bit of fluctuation one way or the other.

Mr. CLIFFORD: Yes.

Mr. WAHN: In order to do this, since we do not have foreign exchange control in Canada, we have to go through the exchange operations of the Bank of Canada. In order to comply with these commitments the government of Canada obviously has to have some control over the inflow and outflow of U.S. dollars. Where only Canadian-owned chartered banks are concerned it is relatively easy for the Bank of Canada to exercise that control but where you have a situation

where the currency we are dealing with is U.S. dollars, which is a reserve currency, and where you have a Canadian chartered bank owned 100 per cent by one of the most powerful banks in the world in the U.S. where there is no minority interest to complain about anything that is done and where there is a very large supply of U.S. dollars available, is it not possible that, for example, if the Bank of Canada decided that we had to restrict expenditures in Canada for fiscal control, other banks might have to cut back on loans to their customers, but that the Mercantile Bank would have sources of funds from its parent bank in the United States, which it could get and could lend out free of the control of the Bank of Canada?

Mr. CLIFFORD: I think I stated the position correctly. The directive we received from the governor of the central bank was with regard to helping to keep the foreign exchange reserves at a given level. It was given to all the banks at the same time and it was on the basis that they would strike a position as of December 31, 1964 on their loans to U.S. residents and their deposits from U.S. residents and not change that position subsequently in a way which would adversely affect the U.S. balance of payments.

We have scrupulously observed that, as we have scrupulously observed every other directive given by the central bank, obviously. We would not contemplate doing anything other than what the central bank asks us to do, particularly in our position.

Mr. MUNRO: Mr. Chairman, I just want to ask a couple of questions.

Mr. MacFadden, in your memorandum outlining what took place at your meeting with Mr. Gordon you mention in the last paragraph:

> We had previously called on U.S. Ambassador Butterworth to inform him of our plans and he was most enthusiastic about our going in to Canada.

How long was the previous to meeting Mr. Gordon on July 18?

Mr. MACFADDEN: On our way through to the meeting.

Mr. MUNRO: Was this on the same day?

Mr. MACFADDEN: Yes; this was in the morning, perhaps an hour before the meeting.

Mr. MUNRO: You also mentioned, Mr. MacFadden—and I think I am quoting you accurately—that there were five others. When you were referring to the others interested in buying the Mercantile I think you stated: "There were five others interested, and we were not going to lose it". What five others were you referring to?

Mr. MACFADDEN: I do not know which specific banks they were, but the managing director of the Rotterdamsche Bank, after we had concluded the agreement and in subsequent conversations, indicated that there were one American bank and four well-known foreign European banks that had approached them to buy the Mercantile. This is irrelevant to our purchase, because we were unaware of them at the time we made our approach.

Mr. MUNRO: You were not aware of them at the time?

Mr. MACFADDEN: I do not consider it is relevant to our purchase of the Mercantile shares.

Mr. MUNRO: Are you saying that you do not consider it relevant?

Mr. BASFORD: If I may ask a supplementary question, I thought you said this morning that it was because of these other banks that you had to move so quickly.

Mr. MACFADDEN: I said that we were not aware of them until the negotiations had been completed.

Mr. BASFORD: I thought that was what you said this morning, with respect. I will have to check the record.

Mr. MUNRO: You were not aware until what time?

Mr. MACFADDEN: We were not aware until after the agreement had been signed in Rotterdam, or perhaps it was at some later date. I was not present at that meeting, and I do not know what was discussed.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have a very clear recollection that either Mr. MacFadden or Mr. Rockefeller said: "There were five other banks after it, and we were not going to let it slip out of our hands".

Mr. BASFORD: "Were not going to lose it".

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): "Were not going to lose it". That is the impression I got; and apparently other members of the Committee got the same impression, that you had this information before you completed the deal.

Mr. MACFADDEN: That the bank was for sale.

Mr. MUNRO: When you used the terminology that we had understood, that there were five others interested—and I must say that you indicated considerable determination this morning when you said, "We were not going to lose it," surely that would have relevance if only as a factor in your mind leading you to rush through this transaction? You yourself indicated that you were acting in considerable haste at all these meetings. I believe it was after the meeting with Mr. Rasminsky, the Governor of the Bank of Canada, on June 20, that you consummated this transaction prior to meeting Mr. Gordon on July 18.

You indicated, with reference to question put to you, that there were five others interested and that you were not going to lose it. You also seemed to indicate that you were moving rather rapidly in these negotiations after your initial meeting with the Governor of the Bank of Canada. It seemed plain to us that this was a governing factor in your decision to rush ahead with the transaction. As members of the Committee are we wrong in this impression?

Mr. MACFADDEN: I do not think that we can, from day to day, control the speed with which negotiations come quickly to a conclusion. After all, we had been carrying on these negotiations with the Dutch from early March and weeks and months had gone by. I do not know what triggers it off at the last minute, when all of a sudden you come to an agreement; I guess if the seller wants to sell and the buyer wants to buy they come a little more quickly to an agreement.

Mr. MUNRO: At any rate, you were not aware of these other five until subsequent to July 16, when the deal was made firm by the Rotterdam Bank. Is that right?

Mr. MacFADDEN: It was on the market. We were in line. We were the second or third ones to talk about it. Obviously there were other people in mind. When you start negotiations you obviously want to conclude them as quickly as you can. You do not want them to drag on and on.

Mr. MUNRO: Especially if you are aware that there are others interested, I suppose. This would add to your haste. That is reasonable?

Mr. MacFADDEN: I think it is irrelevant.

Mr. MUNRO: It is quite relevant, Mr. MacFadden, if it was one of the governing factors that urged you to carry through with this transaction before meeting with the minister of finance. You are the one who is complaining about retroactivity.

Mr. MacFADDEN: Mr. Munro, we were not trying "to pull a fast one." We were trying to conclude a deal after satisfying ourselves that we were not contravening any laws of Canada.

Mr. MUNRO: With respect, Mr. MacFadden, your statement on the record to the effect that "there were five others; We are not going to lose it", would certainly indicate that this was very much on your mind prior to what you regard as the first consummation of this transaction.

Mr. MacFADDEN: I do not know what was on the minds of my partners when they were negotiating in Rotterdam.

The CHAIRMAN: Mr. Munro, perhaps when we read the transcript we can draw our own conclusions.

I would like to recognize Mr. Gilbert now, followed by Mr. Mackasey, Mr. Cowan and Mr. Otto.

Mr. COWAN: Is there a reward for patience on my part? I have been here all day, as I said before—

Mr. MACKASEY: Mr. Chairman, I will gladly pass. I prefer at any time to listen to the words of Mr. Cowan than to participate. I am quite happy to pass until another day.

Mr. BASFORD: Mr. Chairman, it is quite obvious that you did not catch my signal that I wished to be put on the list.

The CHAIRMAN: I will ask for the guidance of the formal members of the Committee. Ordinarly, as I said, we do give priority to those who are already on the regular list as members. The individuals I mentioned have been attending very patiently, and we have a problem because of the time we have taken up till now. We are continuing past ten o'clock, but to what extent, of course—

Mr. THOMPSON: Mr. Chairman, I think it is only fair that we hear from those members who have not previously been able to participate.

Mr. MACKASEY: Mr. Chairman, if you would all stop arguing about my participation you might get some work done. I have made it quite clear that I am prepared to sit here and listen. There are other participants. I do not know what all the discussion is about.

The CHAIRMAN: We are not taking all that time discussing this point. I want to make sure that those will have to make decisions on this issue prior to voting

have had the full opportunity they feel they should have to question the witnesses here. Perhaps these members would yield their priority to the three I have mentioned.

Who wants to start—Mr. Mackasey, Mr. Otto, or Mr. Cowan? If you will settle that amongst yourselves we will proceed.

Mr. COWAN: Do not the hours of attendance make any difference here?

The CHAIRMAN: If that were the case I would do even more talking than some members think I do now.

Mr. OTTO: Mr. Chairman, to settle the argument, I would like to confine my questioning to the issue of discrimination. With all respect to Mr. Wahn, I think it is the Committee's duty to decide, first, if there is discrimination. If there is, we still have the right to pass the legislation, but the first question is: Is there discrimination?

Mr. Clifford, in the questioning by Mr. Cameron I believe he said that the law was a general law. Did I correctly understand you to say that although the law may appear to be general law it is in fact, or could be in fact, discriminatory. Is that what you said.

Mr. CLIFFORD: Are you talking about 75(2)(g)?

Mr. OTTO: Yes.

Mr. CLIFFORD: I said it was discriminatory.

Mr. OTTO: Mr. Cameron pointed out that it appeared to be a general law governing all banks. Did I understand you to say that although it appeared to be a law governing all banks, in reality it was discriminatory against you. In other words, it could be a law—

Mr. CLIFFORD: —That applies only to us.

Mr. OTTO: —prohibiting any bank's opening on Bay Street between Richmond and Adelaide, which could appear to be a general law; but if you were the only bank there then this could be discriminatory? Was that your argument?

Mr. CLIFFORD: The clause, of course, applies to the two new banks and the banks that may come along in the future. At the time it was drafted it applied only to us and in that respect it was discriminatory as well as being retroactive.

The banks that came in subsequent to the first introduction of this clause knew what the clause was going to be. Therefore, I think it can be argued that it was prospective legislation so far as they were concerned.

Mr. OTTO: I did not hear your answer to Mr. Cameron when he said: "Although it could be discriminatory against a small bank it would not necessarily be discriminatory against a large mamoth of a bank like yours." It seems to—and I want to know if you agree with this—that discrimination is discrimination and that it does not matter whether it is against a large, powerful person or a small, insignificant person.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): If you are going to quote me I wish you would do so correctly. I did not make any suggestion that it was a case of the ones being discriminatory and the others not being discriminatory. I said that the action of the Canadian government was not inconsistent—

Mr. OTTO: It was a rationalization of discrimination.

I will direct my next question to Mr. Rockefeller or Mr. MacFadden. At the time that you had your meeting with Mr. Gordon did you gather from his instruction, or from his conversation, that if you did not buy the Mercantile Bank the law would not be applied, and, that if you did buy the bank it would be applied.

Mr. ROCKEFELLER: No, no.

Mr. OTTO: In other words, he said that the law was going to be passed in any event, whether or not you bought the bank?

Mr. ROCKEFELLER: He was not talking about the law. He was talking about our buying the bank. He did not want us to buy the bank.

Mr. OTTO: Did he say that he did not want you to buy the bank?

Mr. ROCKEFELLER: Yes.

Mr. OTTO: Did he give any indication at all that he was going to introduce this legislation against foreign-owned banks whether or not you bought it?

Mr. ROCKEFELLER: He made mention of a report he had made some years ago, as a member of some other commission. He said that he was still in favour of that, and that he was going to recommend this when the decennial consideration came up again, as is happening now.

Mr. OTTO: Thank you.

Mr. ROCKEFELLER: I might mention that we could not have chosen a more unfortunate day to visit Mr. Gordon. An hour before we got there he had been informed about the U.S. equalization tax and he was not pleased at all. We were the first victims that came in.

Mr. LAMBERT: You did not get the back of just one hand but the back of two.

Mr. COWAN: Mr. Chairman, I have only a few questions I would like to ask. My first is directed to Mr. MacFadden. In his resumé of what transpired on July 18 he writes as follows:

> Mr. Gordon knew of our plans to acquire the Mercantile Bank . . .He raised the same questions as had been previously raised by Rasminsky in my conversation with him on June 20th:
>
> (a) This action of ours would open the flood gates for charter applications by other American banks—

You were not making an application for a charter, were you? I gather from the evidence given that you were advising Mr. Gordon that you had acquired control of this Dutch bank.

Mr. MACFADDEN: That we had bought the bank.

Mr. COWAN: I was wondering why he would make reference to charter applications by other banks. As my friend, Mr. Lind, says, you had "pulled a fast one" and bought the Dutch bank faster than your competitors—

Mr. MACFADDEN: Of course, until the government had—as the Minister did on September 22, 1964—announced its intention to bring in certain legislation

and restriction on foreign ownership there was no public indication that such legislation was intended by the government. Therefore, under the terms of the Bank Act, which is still in force, any group can apply for a charter, foreign or other.

Mr. COWAN: Mr. MacFadden, they could apply for a charter whether or not you bought the Dutch bank? That is what I am driving at.

Mr. MACFADDEN: That is correct.

Mr. COWAN: The fact that you were buying the Dutch bank had really no influence on this section (a), that your action in buying the bank would open the flood gates for charter applications. The flood gates were never closed, in my opinion.

Mr. MACFADDEN: All I am saying is that was one of the questions that was raised, which was bothering them.

Mr. ROCKEFELLER: May I try and clarify that? I think Mr. Gordon was afraid that as this news came out it would give competitors and others the idea.

Mr. COWAN: That is much better than "opening the flood gates".

Mr. ROCKEFELLER: Yes, that is right. I think that was what was meant.

Mr. COWAN: I like that wording better, sir.

Mr. MacFadden, further on you say:

> Mr. Gordon admitted that there was nothing the government could do to prevent our proceeding with our plans, because of a loophole in the present Bank Act whereby no provision had been made to prevent foreign ownership of a chartered bank.

Mr. Rockefeller in his resumé, also on page one, in the second paragraph, says:

> —it would be considered as taking advantage of an unforeseen loophole.

Was this word "loophole" used, or is it—

Mr. ROCKEFELLER: It is one which has been used by Mr. Gordon, I think.

Mr. MACFADDEN: It was used.

Mr. BACHAND: May I say that Mr. Gordon on June 14, 1965 said:

> This rather unique circumstance amounted in effect to a loophole in the law which requires that bank charters be approved by parliament.

Mr. COWAN: I thank you for the prompt and accurate answers. I am wondering if you have any idea why Mr. Gordon would state that there was some objection to your taking advantage of this loophole when the Canadian Cabinet met the mid-November payroll of the government by taking advantage of a loophole in interim supply? I believe you are a Canadian citizen, sir? Could you answer that for me?

Mr. BACHAND: If I may say, sir, whenever anyone sees a loophole in the law that would be an advantage to him he would try to take advantage of the loophole before the law is changed.

Mr. COWAN: Through the Chairman, sir, to you, as a Canadian citizen, do you think that your action in taking advantage of this loophole—as Mr. Gordon

called it—in July 1963, was a precedent for what was done in November 1966 by the Cabinet.

Mr. BACHAND: Mr. Chairman, if I may answer Mr. Cowan, I did not take any action. I was a director, and it was the U.S. people who bought from the Dutch.

Mr. COWAN: Through you, Mr. Chairman, to Mr. MacFadden: There has been a great deal of stress here today on Mr. Gordon's having said something on the 18th of July, and, because of Mr. Gordon's having said it then it is a fact—without argument.

I have here in my hand the report of a debate in the House of Commons of 1963. Mr. Gordon, who is a friend of mine, presented his celebrated first budget on June 13, 1963.

You have told us that you could not get a date with him on July 2, and could only meet him on July 18. I wonder if you are aware that between June 13 and July 8—and I have brought *Hansard* over so that no one can question my dates—he brought in a supplementary statement on budgetary proposals. On July 8 he was speaking in the House of Commons and stated:

> ... Therefore, on behalf of the government I am proposing to table tonight revised resolutions on the Income Tax Act and the Excise Tax Act to supersede those tabled on the night of the budget...
>
> There is another administrative change of a similar kind...
>
> It has also been revised to operate more fairly as between those who construct...
>
> A different type of clarification in the income tax—

and Mr. Diefenbaker interrupts and says:

> Is this the final version or the authorized version?

and Mr. Gordon says:

> There is one other substantial clarification proposed.

I wondered if you realized that Mr. Gordon, between June 13 and July 18 when you met him, was backing up and sidestepping and withdrawing? Do you realize how definite his statements are when he makes them? Great reliance is being placed on what he told you on July 18.

I wonder, sir, if you have had the opportunity of hearing our present Minister of Finance. He spoke last Saturday in Vancouver and in the second paragraph of his address to the Truck Loggers' Association of British Columbia he stated:

> It used to be that a minister of finance presented a spring budget in which he laid down government fiscal policy for a year ahead. This concept is now becoming rather outmoded and could indeed be harmful.

I am asking you: Were you aware of this flexibility in statements made by ministers of finance in Canada today as compared to, say, five years ago, and times previous to that? A Canadian citizen might know.

Mr. BACHAND: Mr. Chairman, if I may answer, I also recollect that the present Minister of Finance, commenting on the introduction of the Bank Act, said:

> This measure of control need not involve any inequity.

We beg to submit that it does involve inequity.

Mr. COWAN: Mr. Rockefeller, you were kind enough during the day to identify yourself as a bank clerk, and referred to the Honourable Walter Gordon, the Minister of Finance, as an accountant. I am a printer. I wanted to ask you definitely, sir, do you think that the one bank, your First National City Bank, could affect the banking system in Canada as seriously as the admission into Canada of *Time* magazine and *Readers Digest* has affected the publishing industry in this country?

Mr. ROCKEFELLER: I do not know about their situation but I do not think either the Mercantile Bank or our bank in New York could affect your situation here at all seriously.

Mr. COWAN: I do not think so either, sir. I can assure you, as a printer, that making *Time* magazine and *Readers Digest* a Canadian publication has been done by cabinet action, it was passed right through the House of Commons, so they must be Canadian, no argument about it. If you are from Europe it takes you five years to become a Canadian citizen, but *Time* and *Readers Digest* were made Canadian citizens by a vote of parliament. But why did you not bring Mr. Luce up with you to persuade the government that you should be a Canadian chartered bank?

Mr. ROCKEFELLER: Maybe we should have.

Mr. COWAN: I wondered if you thought you had more influence than Mr. Luce.

Mr. ROCKEFELLER: We did not have the idea.

Mr. COWAN: I see. Well, I was just dropping that as a suggestion because if you had brought him up you might have been ahead.

These conversations that Mr. MacFadden and Mr. Rockefeller had with Mr. Rasminsky and Mr. Gordon, were they all conducted in English?

Mr. ROCKEFELLER: Yes.

Mr. COWAN: The reason I asked that question, sir, is that we have a little idiosyncrasy up here that when two people disagree on their report of any incident you are always able to clear yourself by pointing out that the point was lost in translation.

If your conversations were all in English, Mr. Rockefeller, are you saying that Mr. Elderkin is mistaken when he says in his memorandum that you told Mr. Gordon there was no firm commitment to take over Mercantile? It could not have been lost in the translation, so I am asking you the question.

Mr. ROCKEFELLER: I am not saying Mr. Elderkin was mistaken. I say that he and I have a different opinion of what was said.

Mr. COWAN: That is how you would explain the two conflicting views?

Mr. ROCKEFELLER: Well, they are in obvious conflict. We know what was in our minds, but apparently we did not make it clear.

Mr. COWAN: I just have another comment or two. You pointed out on the second last line of your statement, that if you decided to proceed it was at your own peril. I have been in business for something over 40 years and would you not agree that most business decisions that businessmen are forced to make are at their own peril?

Mr. ROCKEFELLER: Every one.

Mr. COWAN: I agree 100 per cent with what you say. This is no particular brief that we are holding out.

Mr. ROCKEFELLER: We say it is a business risk. You use your best judgment; it may not be right, but it is the best you can do.

Mr. COWAN: The best you can do, yes, sir. I would like to close by making one more reference. This year the Bank of Montreal is celebrating 160 years of incorporation, it was founded in 1817. Confederation occurred in 1867. So, we are 50 years behind the Bank of Montreal. The Bank of Montreal was founded with more than 40 per cent, almost one-half, of its capital provided out of Boston and New York. You will find that in Merrill Denison's *History of the Bank of Montreal.* I thought you would like to know that Sir Donald Smith and his cousin, George Stephen, bought the St. Paul, Minneapolis and Northern Railway back in 1874 from Dutch investors for 25¢ on the dollar and, having given the Dutchmen a little bit of money, we rewarded them later by making one Lord Mount Stephen and the other Lord Strathcona. I wondered if you had hopes, now that you have bought a Dutch bank, that we would recommend you also?

Mr. ROCKEFELLER: I will not answer your question directly but it will interest you to know that in my childhood my maternal grandfather, James Stillman, after whom I was named, was a close friend of Lord Mount Stephen and Lord Strathcona, and I remember being introduced to them when I was about this big.

Mr. COWAN: And you all got in Dutch?

Mr. ROCKEFELLER: This is diversion; we are wasting your time. In Mr. Harfield's firm, Sherman and Stirling, the Stirling of that firm was also closely associated with these gentlemen and his friends in New York called him Lord John.

Mr. COWAN: I asked Mr. Harfield—who is present in the body—that question at noon, and he told me he did not realize that fact.

Mr. ROCKEFELLER: Is that so? It is history. We used to call him Lord John.

The CHAIRMAN: Thank you, Mr. Cowan. I think you have demonstrated that patience certainly brings certain rewards.

I think we may proceed for a few minutes more. I will now call on Mr. Gilbert.

Mr. GILBERT: Mr. Chairman, it is very difficult to follow that act!

The CHAIRMAN: You might have your own approach.

Mr. GILBERT: I will try. Mr. Rockefeller, does the First National City Bank own other interests in Canada besides Mercantile?

Mr. ROCKEFELLER: No. Well, International Trust.

Mr. GILBERT: International Trust.

Mr. ROCKEFELLER: That came as part and parcel of it. The Dutch wanted to get rid of it and we had to take that, too.

Mr. GILBERT: Is that the only other financial institution in which you have an interest?

Mr. ROCKEFELLER: Yes.

Mr. GILBERT: With regard to clause 76, which imposes a limitation on Canadian chartered banks with regard to other Canadian corporations, it limits them to 10 per cent, would that apply to the First National City Bank?

Mr. ROCKEFELLER: And the International Trust?

Mr. GILBERT: Yes.

Mr. ROCKEFELLER: I do not know whether it would or not, but if if applied to the other chartered banks and it was made to apply to Mercantile as a chartered bank then I do not see how we could quarrel with it.

Mr. GILBERT: It would apply to Mercantile but it would not apply to the First National City Bank. Do you follow the point?

Mr. ROCKEFELLER: It is owned in a different way.

Mr. GILBERT: So it would not apply, then?

Mr. ROCKEFELLER: I do not know if it would apply, but if the Canadian parliament wanted to raise that question we certainly would give it careful consideration. We have not done so up to this point.

Mr. GILBERT: What I am saying is that clause 76—

Mr. ROCKEFELLER: In spite of Mr. Cameron we are not asking for any special privileges.

Mr. GILBERT: Clause 76(1) does discriminate with regard to Canadian chartered banks and with regard to Canadian corporations, but it would not discriminate against the First National City Bank. Is that right?

Mr. ROCKEFELLER: Mr. Palmer says it would not apply because the ownership of International Trust does not flow through Mercantile, it flows direct. However, that is a technicality.

Mr. PALMER: It flows this way, Mr. Gilbert, one here and one there.

Mr. ROCKEFELLER: But if you people want to raise that question, that is something well worth considering.

Mr. GILBERT: I think that is all, Mr. Chairman.

(*Translation*)

The CHAIRMAN: Mr. Latulippe has also been most patient. We should perhaps attempt to let him have a few minutes to put questions which he feels are urgent.

Mr. LATULIPPE: I shall not take much time. I listened with a greal deal of attention and interest to the observations, and to all questions having to do with Canadian repercussions throughout the whole day. We have had numerous questions to consider, but we are still far from a solution, and I would like, this evening, to give you my impressions and it seems to me that solutions are easier to come by than we think.

In regard to foreign banks we must have a positive policy, and not a negative policy if we want to prove that we are mature people at the international level, and if we want to keep our share of the world financial market.

Foreign banks, it seems to me, must be subject to the same rules and the same laws and the same privileges as other Canadian banks, and if we want to have a positive policy for as long as we shall not be able to control our credit currency, Mr. Chairman, we will be subject to national and international finances, and Canadians will be subject to interest and debt burdens.

If we want to control our own economy, let us first of all create and control our capital by our own means, by our own physical capacity. Let us exercise our sovereignty over our true credit and our social credit and afterwards we will be able to tell foreign institutions that we are now mature and able to manage our own ship and we will be able to do without foreign capital. Until then, Sir—

The CHAIRMAN: Are you formulating your ideas, or are you asking a question?

Mr. LATULIPPE: I am coming to a question.

The CHAIRMAN: When is your question to begin?

Mr. LATULIPPE: Mr. Chairman, what difference is there between English capital, French capital, United States capital, Dutch capital or Italian capital? We are subject to different types of capital in Canada, because we do not shoulder our responsibilities ourselves on any financial and economic point. As long as we shall let our institutions, our governments, and our provincial administrations go to New York, and to England to borrow capital, we shall be subject to the domination of foreign countries. If we are not able to achieve a positive policy ourselves, then we must be fair and positive in our attitude to foreign institutions, let us not just be negative in regard to foreign capital. Let us accept foreign capital for as long as we cannot create our own sources of capital, and I conclude by saying, once again, foreign banks must be treated as friends and subject to easy and positive conditions. To meet our own needs we need foreign capital at the present time. So I say, we welcome foreign capital and the same prerogatives as those offered to other banks in Canada or other foreign banks doing business in Canada. That is all, Mr. Chairman.

The CHAIRMAN: Thank you. Perhaps our witness will want to comment on your ideas, your profound ideas. Perhaps we should not expect the witnesses to reply in the same profound manner you have.

Mr. ROCKEFELLER: Can I reply in English?

The CHAIRMAN: Yes, it would be easier.

(*English*)

Mr. ROCKEFELLER: We would not presume to tell you how to run your country or your banking affairs, but if you asked our opinion we would heartily recommend that you become a world money market and that you realize that banking is not a little thing that can be compartmented. You cannot stop the flow of money; money flows around the world. All the countries of Europe, who have been in this business for centuries, allow other banks. In our country we allow banks from any country. We welcome them because it makes New York, like London, one of the money market centres of the world. We are competing with London. Frankfurt is a money market centre. Beirut is a great money market centre. I think there are more banks in Beirut than anywhere else. There are over 90 banks in Beirut.

The CHAIRMAN: Is that not the home of the Intra Bank?

Mr. ROCKEFELLER: It was. Switzerland is the home of many banks. It is a sign of maturity. Now, this is not a reflection on your country, but you asked for an opinion and this is the opinion we would recommend. You might increase Mr. Gordon's and Mr. Rasminsky's problems, but that is their job.

The CHAIRMAN: I will now recognize Mr. Thompson. I believe he has also been waiting patiently to ask a question.

Mr. THOMPSON: I have just one question on an item that I do not think has been raised before today. I will direct my question to Mr. Rockefeller. In Mr. MacFadden's memorandum under paragraph (d), which is half way down the page, it is stated that one of the questions raised by Mr. Gordon in questioning whether or not you should acquire the Mercantile Bank was that the confidential nature of the relations of the Governor with the Canadian bank would be disrupted by the presence of a subsidiary of a large American bank, who would perforce report all discussions to its head office. In the operations in the past, present or projected into the future of the Mercantile Bank, would that necessarily be a requirement of the City National Bank of New York?

Mr. ROCKEFELLER: Absolutely not.

Mr. CLIFFORD: May I supplement that, sir? We do receive confidences from the central bank when we meet with the Governor, and confidences are not received by corporations, they are received by men. The people who manage the Mercantile, and who receive this confidential information, live in Canada and they would not under any circumstances be obligated or would they do what has been suggested. What is confidential is confidential to us.

Mr. THOMPSON: As chairman of the parent body that owned the subsidiary bank, Mercantile, you would agree with that statement?

Mr. ROCKEFELLER: Absolutely, and Mr. MacFadden can reinforce this. He was our manager in London for some years and in that capacity I am sure there were many occasions when he had transactions with the Governor of the Bank of England that he never breathed a word about in New York. Various governors who are now out of office in the Bank of England have told us that. They dealt with us with complete confidence because they knew what kind of people we were and how we did our business.

The CHAIRMAN: Mr. Lind, did you have a question?

Mr. LIND: Yes. I want to come back to a question I asked this morning. The Mercantile Bank is a chartered bank in Canada and receives its charter from the Canadian government. Mr. Rockefeller made the generous offer that he would reveal all figures, and I was wondering when I would receive the figure that I asked for of the bad debt losses written off in the years 1962, 1963, 1964 and 1965?

Mr. ROCKEFELLER: Those will be supplied by Mr. Clifford. How much time do you need; a week, three or four days?

Mr. CLIFFORD: I will get them and give them to the Chairman, on the basis that I understand they were requested. I do not know whether this would conflict with the Inspector General or not.

The CHAIRMAN: Mr. Lind is the member of the Committee who seems to have a special interest in this. Perhaps Mr. Clifford and Mr. Lind might consult together with the Inspector General to see if there is any breach of the present regulations regarding disclosure of information. There has been no general accord on the part of the Committee that we all seem to need this information, although I see no objection to having it made available if Mr. Lind feels that it will assist him in his study.

Mr. ROCKEFELLER: We would request that you keep it confidential. It might affect our collection of some debts, and things like that, but if you would like to have these figures for reaching your own judgments, we certainly want to make it available to you.

The CHAIRMAN: I think the best procedure—

Mr. ROCKEFELLER: We request you use it with discretion. We will rely on you.

The CHAIRMAN: I think, Mr. Lind, that you and Mr. Clifford can get together directly on this point on the basis that has just been outlined. Is that satisfactory?

Mr. LIND: Yes.

Mr. BASFORD: I would like to ask a couple of questions related to Mr. Gilbert's questions, which I have noted here and which can be answered by a statement filed with this Committee subsequently. I do not need this information tonight. I would like to know what moneys, since Citibank took over Mercantile, have been paid either by Mercantile or Citibank, or what moneys or securities were transferred to International Trust Company. I would also like to know the growth history of International Trust Company, and the ownership structure of it, for the period that is in question here, namely, from the time that Citibank acquired Mercantile and International Trust. That can all be done by a supplementary statement filed with the Committee.

Mr. ROCKEFELLER: We are perfectly willing. We would again request you not to spread it around because you would hurt the International Trust Company.

Mr. BASFORD: Thank you, I respect your wishes.

The CHAIRMAN: Are there further questions which those present consider pressing at this point?

Mr. BASFORD: I have one other question which the witnesses might think is hypothetical, but I assure them that in my view it is not. In the event that the present draft act stays substantially as it is, I would like to know whether the witnesses are able to put before the Committee a plan or proposal which would be fair to Citibank and by which they could divest themselves of the 100 per cent holding in the Mercantile Bank.

Mr. ROCKEFELLER: We have not made any contingency plan of that nature. If Parliament so acts, we will have to consider the situation at that time.

The CHAIRMAN: If there are no further questions of those present,—

Mr. CLERMONT: Mr. Chairman, will Mr. MacFadden send the memorandum he made after the meeting with the Governor of the Bank of Canada?

Mr. MACFADDEN: I have just presented it to the Chairman.

Mr. CLERMONT: Thank you very much.

The CHAIRMAN: If there are no other questions the members present consider pressing, I will suggest that we express a word of thanks to our witnesses today for providing us with information which I am sure will be of assistance to us in our study and recommendations on this very important issue, and I remind the Committee that we will meet again next Thursday morning at 11 o'clock to hear a group of trust companies. If there are no further comments regarding our order of business, then I declare this meeting adjourned until next Thursday.

Appendix "KK"

A SUBMISSION

to

THE STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

by

THE MERCANTILE BANK OF CANADA

With Reference to Bill C-222
Section 75(2)(g)

SUMMARY

The Mercantile Bank of Canada urges deletion of Section 75(2)(g) from Bill C-222 because:

1. It is unnecessary in order to achieve the announced aims of bank regulatory policy.—see page 7

2. The paragraph is discriminatory It applies to one bank only, the Mercantile Bank, and it is made to apply to it notwithstanding the fact that the Mercantile Bank was incorporated by Parliament with the full knowledge of Parliament that it would be foreign-owned.—see page 5

3. The paragraph is retroactive in effect and operation—The Mercantile Bank was incorporated, by Parliament, in 1953. It has been operating in Canada, as a duly constituted Canadian chartered bank, for 13 years. Now it is faced with prospective Government legislation, directed at it alone, that could seriously affect its operations and its growth.—see page 6

4. The paragraph is punitive—The acquisition of the Mercantile Bank by First National City Bank did not constitute a "foreign takeover"; it involved simply a transfer of ownership from one foreign (Dutch) owner to another (a United States) foreign owner at a time when such a transfer required no approval by any Canadian governmental authority. It would seem obvious that the inclusion of Section 75(2)(g) in Bill C-222 is based solely upon the nationality of the Bank's present owner.—see page 8

This submission recites the pertinent facts concerning the original chartering of the Mercantile under Dutch ownership and the subsequent transfer of the shares to United States owners. Finally, this submission attempts to sketch the role Mercantile plays in the Canadian financial community so that the committee may assess the possible effect of Section 75(2)(g) upon Canadian business.

Like all Canadian chartered banks, the Mercantile is interested in and has views concerning other portions of Bill C-222. However, since Section 75 (2)(g) is directed specifically and exclusively to the Mercantile, this submission will confine itself to our views on that portion of the Bill, even though it is only a small part of the whole. With respect to the rest of Bill C-222, we wish to

associate ourselves with the submission filed by the Canadian Bankers Association of which we are a member.

Statement of facts

Section 75(2)(g),* attempts to impose limitations on the activities and development of The Mercantile Bank of Canada. The basis for this repressive legislation is that the ownership of Mercantile is in the hands of non-residents of Canada.

Mercantile was established by Parliament in 1953, by 1-2 Elizabeth II, chapter 67. Its authorized capital is now $10,000,000 divided into 1,000,000 shares of the par value of $10 each, of which 800,000 shares with an aggregate par value of $8,000,000 are issued and fully paid.

At the time of its incorporation, it was clearly understood that Mercantile would be foreign-owned. The incorporating Act was passed by Parliament with that knowledge.

For several years following its incorporation, all of the issued shares of Mercantile, other than shares held by directors, were owned by Nationale Handelsbank N.V., of the Netherlands, later merged with Rotterdamsche Bank N.V., also of the Netherlands.

In September 1962, First National City Bank became interested in acquiring the shares of Mercantile which the Dutch were then seeking to sell. Serious negotiations commenced in March 1963 and resulted, on June 26, 1963, in a binding written agreement (copies of which will be made available to the Committee). Thereafter, First National City Bank, through its subsidiary, International Banking Corporation, paid for and took delivery from the Dutch all of the issued shares of Mercantile other than the shares held by directors.

At present, Mercantile operates only seven offices in this country: Montreal (head office), Calgary, Halifax, Quebec City, Toronto, Vancouver and Winnipeg. At the close of the fiscal year on October 31, 1965, total assets of this bank were $222,000,000. Paid in capital and rest accounts now total $10,000,000.

Section 75(2)(g) is Contrary to Canadian Legislative Traditions and is both Unfair and Punitive

A. *Section 75(2)(g) is discriminatory because it is directed specifically to the Mercantile Bank.* The Mercantile is the only Canadian bank more than 25 percent of whose shares are held by "any one resident or non-resident shareholder". The section places, or attempts to place, a limitation on the growth of the Mercantile Bank.

This section would preclude a bank, in circumstances that can apply only to the Mercantile Bank, from having outstanding "total liabilities...exceeding 20 times its authorized capital stock...". The attention of this Committee is directed to Attachment A, and particularly to column 5 thereof. There it will be seen that liabilities of all chartered Canadian banks are in excess of 20 times, and range up to 70 times, authorized capital.

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*"*Except as authorized by or under this Act,* the bank shall not, directly or indirectly, at any time after the 31st day of December, 1967, have outstanding total liabilities (including paid-up capital, rest account and undivided profits) exceeding twenty times its authorized capital stock if more than twenty-five per cent of its issued shares are held by any one resident or non-resident shareholder and his associates as described in section 56."

Attachment A shows, therefore, something of the severity and unreasonableness of the proposed limitation that would be imposed on Mercantile, the only Canadian bank that would be affected by the provisions of Section 75(2)(g). Normal activities of Canadian banks have carried them far beyond the suggested 20 to 1 ratio of liabilities to authorized capital. To impose such a limitation on one bank and not on the others is discriminatory and harsh.

The discriminatory feature of Section 75(2)(g) is further emphasized by the fact that it is directed against the present owners of the Mercantile Bank. Historically there has been no restriction on foreign ownership of chartered banks. In the case of the Mercantile, foreign ownership was specifically approved at the time the Bank was chartered. The present proposal was not put forward until ownership of the Mercantile Bank was transferred from Dutch to U.S. hands.

The section in question is, therefore, doubly objectionable as discrimination against a particular institution and against the nationals of a particular friendly country.

B. *Section 75(2) (g), in addition to being discriminatory, is also retroactive.* It is submitted that retroactive legislation, especially when aimed at a specific target, is not in keeping with the best Canadian legislative traditions. The section is retroactive because it would alter the terms under which the Canadian Government will treat ownership of a Canadian bank after that ownership hs been acquired. The section is not directed to a hypothetical or future situation. It is directed to an existing situation. An established bank, chartered by Parliament some 13 years ago, is now being singled out for uniquely severe treatment.

The original acquisition by Dutch interests of all the Mercantile Bank shares and the subsequent transfer of that ownership to United States interests was entirely in accordance with Canadian law. It is hard to conceive of a more egregious example of retroactivity than the proposed section which, more than three years later, seeks to deprive the present owners of the Mercantile of the benefits of a purchase which they made openly and lawfully in reliance on Canadian law.

Further evidence of the retroactive intent of Section 75(2)(g) can be found by examining the provisions of Sections 53, 54 and 56 of Bill C-222, all of which relate in some fashion to limitations on non-resident ownership of Canadian chartered banks. Without commenting on the merits of these proposed limitations on non-resident ownership, the Committee should note that the Bill does contain such limitations and that they are rather stringent. Consequently, if there were not a deliberate intent to enact retroactive legislation, Section 75(2)(g) would not be necessary. Future foreign ownership of Canadian chartered banks is certainly adequately circumscribed in Sections 53, 54 and 56.

Some proponents of Section 75(2)(g) have attempted to justify it on the ground that such a provision is necessary to protect the Canadian financial community from the threat of foreign encroachment. If there were such a threat, there are other more equitable means available to deal with it. Indeed, Sections 53, 54, and 56 are so designed.

Further, however, though foreign owned, the Mercantile is still a Canadian chartered bank and, like all Canadian banks, is subject to all provisions of the Bank Act. This gives the Canadian government precisely the same measure of

control over the Mercantile that it has over other Canadian chartered banks. Authorized capital can not be increased or decreased without government approval. Interest rates and reserve requirements are subject to government control, and the Mercantile has the same reporting responsibilities that all other Canadian banks have.

C. *Section 75(2)(g) seeks also to punish the Mercantile Bank, although Mercantile has violated no law.* Of all the Canadian chartered banks, Mercantile is the only one singled out in Bill C-222 for punitive measures in the form of a limitation on its growth. Furthermore, if even by inadvertence Mercantile were to exceed the limitation placed upon it, the penalty which would be assessed is harsher than penalties assessed for violating other parts of the Bank Act. Anyone looking at Section 75(2)(g) for the first time, aside from noting the obviously discriminatory and retroactive features of the paragraph, could certainly also conclude that Mercantile had been singled out for special punishment for some past wrong-doing.

It is submitted that the Committee consider the extent to which Section 75(2)(g) may circumscribe growth opportunities for Canadian Business at home and abroad

Limiting Canada's only foreign owned bank may also handicap Canadian business. To assess this possibility it is necessary to describe briefly the role Mercantile plays in the Canadian business community.

In contrast to other Canadian banks which operate hundreds of branches, Mercantile has only seven. For example, each of the three largest Canadian banks has more than 1,000 branches in Canada.

It is unrealistic for Mercantile to try to match its competitors' branch networks. That would require an enormous investment and also would hold small promise of any return because the branch systems of other Canadian banks occupy an overwhelming market position.

Mercantile renders a particularly valuable service to Canada's business community in two ways: by encouraging and developing Canadian exports, and by offering lending techniques designed to serve the special requirements of highly technical industries.

How Mercantile Aids Canadian Export Development

Mercantile gives important assistance to the development of Canadian exports because of its direct access to 183 branch offices and affiliates of First National City Bank in 60 countries on six continents. The extent of this foreign banking network is unsurpassed by any other bank in the world.

Other Canadian banks have also established strong overseas branch and agency systems. It is worth noting, though, that the overseas branches available to Canadian business because of Mercantile Bank's foreign ownership complement more than they duplicate the overseas coverage of other Canadian banks. For example, Canadian banks, not including the Mercantile, operate in 42 countries abroad. With the addition of the facilities of the Mercantile, this jumps to a total of 77 countries. So, while Mercantile is small at home, it makes, we believe, a substantial contribution to the coverage of foreign markets rounding out in a special way the broad coverage of other Canadian banks.

With a phone call to the Mercantile Bank, a Canadian businessman can obtain prompt information about markets for his merchandise at points as distant as Milan and Singapore. This information is detailed, current, and based upon on-the-scene reports. Canadian customers of the Mercantile Bank also may receive, if they wish, a monthly worldwide economic summary called the Foreign Information Service. It has recently been rated by those who receive it as the most useful service of its kind.

Export development has always been basic to the health of Canada's economy. Improved access to world markets can be especially significant to Canadian businessmen now, because world markets are more competitive than ever before. Mercantile is qualified and proud to serve Canadian business abroad.

How Mercantile Serves Special Technical Needs of Canadian Business

Canadian business, like that of all highly industrialized nations, is becoming increasingly technical and specialized, and with the growth in technology has come the need for lending techniques and financing plans to match it. For example, financing petroleum production must be arranged in a totally different way from financing computer production. Mercantile turns to such specialists as geologists, petroleum engineers, and electronic engineers to tailor financing plans to the special needs of Canada's highly technical industries. Through close relationships with the large institutional lenders, access to medium and long-term funds can be made readily available when needed.

An analysis of 1966 borrowings from the Mercantile Bank shows that 86.5 per cent of the borrowers are companies that are wholly Canadian owned or are Canadian controlled. Only 8.8 per cent of the borrowers are United States companies. By total dollars, less than a quarter of Mercantile's outstanding loans are to United States customers. Mercantile's Canadian dollar deposits at August 31 amounted to 0.42 of one per cent of such deposits in all the chartered banks.

If the Committee is interested in details of how Mercantile is aiding Canadian exports and meeting specialized financial needs of Canadian business, we will be glad to supply the names of Canadian businessmen whom we have served and who could provide detailed information to persons authorized by the Committee.

How Mercantile Trains Young Canadian Bankers

Since the change from Dutch to United States ownership in 1963, Mercantile Bank has embarked on an aggressive recruiting program to attract promising young Canadians to banking careers at home. This program has produced an extraordinarily well-qualified group now enrolled in training and development programs which will qualify them as professional bankers in only a few years. Their training is provided at the Mercantile head office in Montreal, in Mercantile branches, in New York City and overseas. This extensive program will contribute importantly to the development of modern Canadian bankers qualified to meet the intricate and challenging financial needs of Canada.

Conclusion

It has been suggested occasionally that Mercantile Bank offer shares to the Canadian public. Mercantile management, however, is in no position even to consider this proposal until it has an earnings record that would enable Mercantile's shares to be valued in the market place on a basis comparable with

shares of other Canadian banks. Furthermore, consideration of selling shares to Canadians must be deferred until Mercantile can be assured that it will not have special restrictions placed on its growth. No prudent investor would buy the shares of a bank which has been burdened with special limitations not placed upon its competitors.

However, we respectfully remind the Committee that since 1964 shares of First National City Bank stock have been listed on both the Montreal and Toronto Stock Exchanges, making those shares as available to Canadians as the shares of Canadian banks.

We have attempted here to describe the objectionable features of Section 75(2)(g) in terms of the interests of both Mercantile and its customers. We have suggested that measures such as this are contrary to the Canadian legislative tradition of not changing the rules in the middle of the game, and not discriminating against one competitor to favor others. We have no quarrel with the right of any government to regulate bank operations, but we urge strongly that it be done on a prospective, not a retroactive basis. When the Canadian government decided to limit foreign ownership of other financial institutions, insurance and trust companies, it did not even suggest any measure such as Section 75(2)(g). (See Chapter 40, Statutes of Canada 1964-65) Instead, it enacted legislation limiting foreign ownership from that date forward, and did not persecute existing companies, attempt to limit their growth, nor try to force foreign owners to divest. There is nothing to warrant treating banks worse than other kinds of financial institutions.

For all these reasons we urge removal of Section 75(2)(g) from Bill C-222.

Respectfully submitted on behalf of
the Board of Directors,
The Mercantile Bank of Canada
Robert P. MacFadden, President

October 25, 1966

SCHEDULE A

FIGURES AS AT AUGUST 31, 1966 IN MILLIONS OF DOLLARS

	1	2	3	4	5
	Authorized Capital	20 Times Authorized Capital	Liabilities including paid up Capital, Rest and Undivided Profits	Difference between 2 and 3	Liabilities Times Capital
Bank of Montreal	100	2,000	5,274.6	−3,274.6	52.7
Banque Canadienne Nationale	25	500	1,075.5	− 575.5	43.0
Canadian Imperial Bank of Commerce	125	2,500	6,373.6	−3,873.6	50.9
The Bank of Nova Scotia	50	1,000	3,537.1	−2,537.1	70.7
The Provincial Bank of Canada	20	400	562.1	− 162.1	28.1
The Royal Bank of Canada	100	2,000	6,424.6	−4,424.6	64.2
The Toronto Dominion Bnak	50	1,000	2,996.0	−1,996.0	59.9
The Mercantile Bank of Canada	10	200	224.5	− 24.5	22.4
Bank of Western Canada	25	500			

APPENDIX "LL"

Memorandum of Agreement between the Rotterdamsche Bank N.V. and the International Banking Corp. (I.B.C.) a subsidiary of First National City Bank:

Subject to the approval of our Boards of Directors and of all the Governmental Authorities concerned, the Rotterdamsche Bank N.V. agrees to sell or cause to be sold and the I.B.C. agrees to buy all the capital stock of the Mercantile Bank of Canada on the following terms and conditions:

1. As soon as possible after the close of business September 30, 1963 I.B.C. will take delivery and pay for 50 per cent of the stock of the Mercantile Bank of Canada and will agree to take delivery and pay for the remaining 50 per cent of the stock at any time up to four years after date of the initial transfer, and the Rotterdamsche Bank N.V. agrees to sell or cause to be sold and delivered such stock to the I.B.C. within this time period.

2. The price of the stock shall be fixed at the time the contract of sale is signed and shall consist of the following two factors:

(a) The fair net asset value of the Mercantile Bank of Canada presently stated at * of situation September 30, 1963 but to be determined by an audit satisfactory to buyer and seller.

(b) A premium of * to be paid at the time of the transfer of the first 50 per cent of the shares and the payment therefor.

3. The I.B.C. will pay or cause to be paid in dividends to the seller an amount equal to 5 per cent per annum on the * of the shares held by the seller or on such other figure as may be fixed by audit referred to in 2(a) above.

4. The Rotterdamsche Bank N.V. will execute or cause to be executed an agreement to vote its shares in the same manner as those held by the I.B.C.

5. Upon the transfer of the first 50 per cent of the shares it will be agreed that the phrase "Affiliated with First National City Bank, New York" will be used on all signs, letterheads, Annual Reports and other documents of the Mercantile Bank of Canada and in the reports of the First National City Bank.

6. Mr. C. F. Karsten and Mr. H. J. Knottnerus will remain on the Board of Directors of the Mercantile Bank so long as they represent shareholders. The other directors will be elected by I.B.C.

It is agreed that the publication of the deal will be done in a joint statement to which both parties have to concur.

This Memorandum of Agreement will be submitted to the Senior Management of First National City Bank not later than July 5, 1963 for approval.

June 26, 1963.

*Figures have been deleted because of their confidential nature

I, CARL W. DESCH, Secretary and Treasurer of INTERNATIONAL BANKING CORPORATION, DO HEREBY CERTIFY that the following is a true and correct copy of a resolution duly adopted at a special meeting of the Board of Directors of said Corporation held July 16, 1963.

RESOLVED that the proposal for purchase of all the shares of The Mercantile Bank of Canada for * plus the amount by which the fair net asset value of such Bank at September 30, 1963 exceeds * or less the amount by which such fair net asset value is less than * as determined on the basis of audit of such Bank, and with provision for further payment, all generally on the basis set forth in the Memorandum of Agreement dated June 26, 1963, is hereby approved.

IN WITNESS WHEREOF, I have hereunto affixed my official signature and seal of the said Corporation in the City of New York on this 8th day of March, 1966.

(SEAL)

*Figures have been deleted because of their confidential nature

Dr. C. F. Karsten
Managing Director
Rotterdamsche Bank
Rotterdam, Netherlands

Our Board acted affirmatively on Bank and Trust Company today stop Rockefeller Moquette visit Ottawa Thursday next and Domestic Banks will be informed by personal visits on Monday Tuesday next stop believe short news release by next Tuesday imperative if you agree regards

APPENDIX "MM"

Government of Canada

Ottawa, Canada
July 18, 1963

Called by appointment with Mr. Rockefeller on Walter Gordon, Minister of Finance. We were joined by Robert Bryce, Deputy Minister of Finance and Clayton F. Elderkin, Inspector General of Banks. Mr. Gordon had asked Henry Moquette, President of the Mercantile Bank *not* to join the discussion.

Mr. Gordon knew of our plans to acquire the Mercantile Bank and had discussed it with Mr. Rasminsky, Governor, Bank of Canada. He raised the same questions as had been previously raised by Rasminsky in my conversation with him on June 20th:—

(a) This action of our would open the flood gates for charter applications by other American banks, and

(b) The confidential nature of the relations of the Governor with the Canadian banks would be disrupted by the presence of a subsidiary of a large American bank who would perforce report all discussions to its Head Office. Concern was also expressed over the possible interference of some of our U.S. laws, such as the Clayton Anti-Trust Act.

Mr. Gordon admitted that there was nothing the Government could do to prevent our proceeding with our plans, because of a loophole in the present Bank Act whereby no provision had been made to prevent foreign ownership of a chartered bank. He stated that if we were to apply for a charter today we would be turned down under the temper of the present Parliament. He pointed out that the report of the Royal Commission on Banking was due to come down in the fall and would be followed by hearings in connection with the revision of the Bank Act due in June, 1964. With a minority Government, having to deal with vociferous minority parties, he could not predict what restrictions on foreign ownership of Canadian banks would be included in the new Act. We pointed out that it had always been the practice of Anglo-Saxon countries *not* to enact retroactive legislation. We were reminded that all bank charters expire with the old Bank Act and he made it clear that possibly the Mercantile charter would not be renewed. He said the Government does not welcome our contemplated move, and he can obviously be counted on to use any influence he has to get us out, if we go ahead. He referred several times to the Gordon Commission Report of 1957 "of which I was the Chairman" in which he recommended specific legislation to prevent foreign control of Canadian banks.

Mr. Rockefeller indicated that we were committed on our plans but had not yet filed for approval with the Federal Reserve. In answer to our question about the foreign-owned former Barclay's Bank and the present Mercantile, he said that they were small and inconsequential and consequently they could live with them. Mr. Rockefeller reminded Mr. Gordon of the activities of Canadian banks in the U.S. He brushed that off as inconsequential, even including the operations of the Agencies in New York City.

We had previously called on U.S. Ambassador Butterworth to inform him of our plans and he was most enthusiastic about our going into Canada.

Robert P. MacFadden
Vice President

Mercantile Bank of Canada

A call was made with Mr. MacFadden on Finance Minister Gordon. There were present his associates Bryce and Elderkin. The meeting was very friendly but the result unfavourable. It lasted for 45 minutes. The Minister had been asked to see a representative of the U.S. Treasury who had been sent up to explain President Kennedy's tax bill at the same time as our appointment and the Treasury man was deferred until we had finished. Gordon also extended apologies for not being able to take up to lunch. Preliminary arrangements had provided for Moquette of the Mercantile Bank to accompany us but when we arrived he was told that Gordon wanted to see us privately.

Gordon had been advised of the matter by Rasminsky. He said he would like to talk from a memorandum and had a memorandum in hand during the conversation. The Mercantile Bank was permitted to come in in 1953 under a different set of circumstances. Its entry into the market provoked considerable discussion at that time. Gordon went on that he had been chairman of a banking commission to review the laws several years ago and that commission did not look favorably on the presence of a foreign bank in the market. He stated that if we enter the market through purchase of the Mercantile Bank it would be considered as taking advantage of an unforeseen loophole. It would be further considered inopportune at this time because another banking commission is being established this fall to review the banking laws again with changes in the laws contemplated in 1964 or 1965.

The argument was that Canada was a small developing country in which banking played a more important part than in mature countries. They now enjoy a very flexible working arrangement between the Governor of the Central Bank and the chartered banks. They pretty much ignore the Mercantile Bank under Dutch control on account of the scope of its activities. While highly complimentary to FNCB and its personnel they feel under our management the Mercantile Bank would become a more important factor. He expressed fears of an American manager and an American subsidiary being more responsive to our interests and those of the U.S. than those of Canada. He made vague allusions to the U.S. tax and antitrust laws. He reiterated his published views as to being concerned with the extent of U.S. ownership of Canadian industry. He stated that U.S. manufacturing subsidiaries were more interested in Canadian business than manufacturing for export from Canada and did not assist in combating Canada's balance of payments problem.

Another major argument was that if we were permitted to come in there would undoubtedly be a flood of applications from other U.S. banks and other foreign banks. The inference was that Rasminsky and he were at a loss as to how to cope with this problem and preferred to avoid it by keeping us out. In reply to a question he stated that without any doubt if we attempted to obtain a new charter in Parliament it would be refused.

He dismissed our presence in the London market and friendly relationship with the Bank of England as inapplicable as London is an international market with many foreign banks. He dismissed the existence of Canadian agencies, branches, subsidiaries in the U.S. saying they were an inconsequential factor in our market whereas we would be an important factor in the Canadian market. In reply to another question he said that he would feel just the same way if matters were arranged so that we had a branch rather than a subsidiary in Canada.

It was called to our attention that the renewal of the charters of all the Canadian banks will be due for revision next year and that the one of the Mercantile Bank would not necessarily be renewed. He said that he would have no compunctions about opposing a renewal for us having advised us so far in advance. He knows that licenses of foreign banks operating in New York are renewable annually. He said the Government looked on the transaction with disfavor and he advised against completing it. Fortunately at the very beginning we opened the conversation by saying that we had made a deal with the Dutch and were coming to advise him of it. This was the one thing that seemed to disturb him and to shake his overall attitude of telling us what we should do. We

made no commitment as to our course of action. We said that we of course would consider his views and appreciated them but might feel that our contractual obligation with the Dutch was such that we were committed. We further said that we also had an obligation to our shareholders to take advantage of an opportunity that was open to them. His disapproval was very clear. He did not forbid us to proceed and made no direct threats of reprisal. On being asked that if we decided to proceed it was at our own peril he said that he would not use those words but it was a correct appraisal of the situation.

J. S. Rockefeller,
Chairman.

July 19, 1963

APPENDIX "NN"

Mercantile Bank

Comments on my call on Mr. Rasminsky at the Bank of Canada on June 20, 1963:

1. We were completely right in going directly to him first to discuss our plans. He was most appreciative and had heard no intimation of our plans so at this date there had been no leak. I did not feel that he was too surprised at our proposal.

2. He strongly recommended our going the route of the Mercantile as easier for us but did not back away from a charter application on our own. He suggested the timing could be complicated by the revision of the Bank Act.

3. In either case he would be called to testify before the Treasury Board and would want to think through carefully two points on which he would have to give answers:

(a) Would this open up an influx of applications from American banks, and

(b) What would be the effect on close working arrangements with chartered banks when discussions would be reported promptly to our Head Office and could he and the Bank of Canada live with it.

4. He approved the sequence of steps we propose to take and I assured him we would come back to him when the deal is firm and before signing and at the same time to clear with the Minister of Finance.

5. He spoke very highly of our proposed counsel Palmer and knows I will be talking with him shortly, he said our conversation is "off the record".

June 20, 1963
in Ottawa

Robert P. MacFadden,
Vice President.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 39

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THURSDAY, JANUARY 26, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Messrs. Sinclair M. Stevens, President, York Trust and Savings Corporation; Léo Sauvé, General Manager, Lincoln Trust and Savings Company; Jarvis Freedman, President, Rideau Trust Company.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25564—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,	Davis,	Lind,
Cameron (*Nanaimo-Cowichan-The Islands*),	Flemming,	Macaluso,
Cashin,	Fulton,	McLean (*Charlotte*),
Chrétien,	Gilbert,	Monteith,
Clermont,	Irvine,	More (*Regina City*),
Coates,	Johnston,*	Munro,
Comtois,	Lambert,	Valade,
	Latulippe,	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

*Replaced Mr. Leboe on January 25, 1967.

ORDER OF REFERENCE

WEDNESDAY, January 25, 1967.

Ordered,—That the name of Mr. Johnston be substituted for that of Mr. Leboe on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25564—1½

MINUTES OF PROCEEDINGS

THURSDAY, January 26, 1967.
(79)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.00 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Davis, Gilbert, Gray, Irvine, Johnston, Laflamme, Lambert, Latulippe, Lind, McLean (*Charlotte*), More (*Regina City*), Wahn—(15).

In attendance: Messrs. Sinclair M. Stevens, President, York Trust and Savings Corporation; H. Soule, Q.C., President, Hamilton Trust and Savings Corporation; Léo Sauvé, General Manager, Lincoln Trust and Savings Company; Jarvis Freedman, President, Rideau Trust Company; John Burnett, Secretary, Lincoln Trust and Savings Company; Stewart Ripley, Executive Vice-President, Metropolitan Trust Company; K. L. Cunningham, Managing Director, District Trust Company; the Honourable Mrs. Ellen Fairclough, Secretary, Hamilton Trust and Savings Corporation; and Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation.

On motion of Mr. Clermont, seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

Resolved,—That copies of a memorandum by Robert P. MacFadden, President, The Mercantile Bank of Canada, filed with the Chairman at the meeting of January 24th, be distributed to the members of the Committee and included in the Minutes of Proceedings and Evidence. (*See Appendix NN, Issue No. 38*).

The Committee then proceeded to consideration of the brief submitted by A Group of Twelve Trust Companies. In accordance with the resolution passed at the meeting of October 13, 1966, the brief is attached as *Appendix OO*.

The Chairman introduced the witnesses and Mr. Stevens made an opening statement and was questioned.

The questioning continuing, at 12.50 p.m. the Committee adjourned until 3.45 p.m. this day.

AFTERNOON SITTING
(80)

The Committee resumed at 4.00 p.m. this day, the Vice-Chairman, Mr. Laflamme, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Flemming, Gilbert, Gray, Irvine, Johnston, Laflamme, Lambert, Lind, McLean (*Charlotte*), More (*Regina City*), Munro—(13).

In attendance: The same as at the morning sitting.

The Vice-Chairman presented the Ninth Report of the Sub-Committee on Agenda and Procedure, dated January 26, 1967, which is as follows:

Your Sub-Committee on Agenda and Procedure met at 12.55 p.m. this day and agreed to recommend as follows:

(a) That the Committee expand its schedule to include sittings on Monday evenings and Friday mornings until completion of the study of the banking legislation;

(b) That the programme for the week of January 30, 1967, be as follows

Governor of the Bank of Canada—
Monday, January 30, evening sitting and
Tuesday, January 31, morning sitting

Canadian Bankers' Association—
Tuesday, January 31, afternoon and evening sittings

Minister of Finance—
Thursday, February 2, all day and, if necessary, morning sitting,
Friday, February 3;

(c) That the Trust Companies Association, who have indicated that they now wish to submit a brief, be asked to file their brief for consideration by the Sub-Committee on Agenda and Procedure;

(d) That the brief of County Savings and Loan Corporation be distributed to members and printed in the final issue of the Minutes of Proceedings and Evidence concerning the banking legislation.

On motion of Mr. Cameron (*Nanaimo-Cowichan-The Islands*), seconded by Mr. More (*Regina City*), the report was *approved.*

Messrs. Stevens, Sauvé and Freedman were questioned.

At 4.40 p.m. the Chairman resumed the Chair.

The questioning having been concluded, the Chairman thanked the witnesses, who then withdrew.

At 6.05 p.m. the Committee adjourned until Monday, January 30th, 1967, at 8.00 p.m.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

THURSDAY, January 26, 1967.

The CHAIRMAN: Gentlemen, I think we should begin our meeting. Our witnesses this morning represent a group of 12 trust companies. Before introducing them and having them present their briefs, I think—

Mr. CLERMONT: The witness that we had before us last Tuesday, Mr. MacFadden, tabled a memorandum that was written after his visit with the Governor of the Bank of Canada. Can the members of the Committee have that memorandum now?

The CHAIRMAN: I think that after the hearing on Tuesday I directed the Clerk to circulate this memorandum to the members of the Committee.

Mr. CLERMONT: I have not received a copy yet.

The CHAIRMAN: My copy has stapled to it the transmittal slip of the Committees Branch of the house.

There was no move to formally include this document in our records at the hearing on Tuesday because it was produced late in the proceedings and there were not copies for all the members.

Mr. CLERMONT: I will move that it be made part of the record.

The CHAIRMAN: It is moved by Mr. Clermont that this document be made part of our record. Is there a seconder? Seconded by Mr. Cameron. Agreed?

Motion agreed to.

I would also suggest to the members of the steering committee that perhaps we might be able to adjourn our session this morning a little earlier, say, about ten to one, and we might firm up our schedule for next week in light of the news we had in the house yesterday with respect to the government's plans for the session. Perhaps the supporters of the opposition who are thinking about what may or may not have transpired might have some information.

Mr. LAMBERT: As long as we all agree, Mr. Chairman.

The CHAIRMAN: Yes. The government's proposals in the house place a particular burden on the members of this Committee from all parties and I think we should try to figure out where we stand in that regard as soon as possible.

Mr. LAMBERT: I am not going to be stampeded.

Mr. CLERMONT: I note here that Mr. MacFadden's brief says in paragraph 4:

> He approved the sequence of the steps we proposed to take and I assured him we would come back to him when the deal is firm and before signing and at the same time to clear with the Minister of Finance.

The CHAIRMAN: What are you referring to at this time?

Mr. CLERMONT: Mr. MacFadden's statement.

Mr. MORE (*Regina City*): We are not discussing this.

The CHAIRMAN: Are you bringing this to our attention for any particular reason?

Mr. CLERMONT: Maybe there is no sequence. As a regular member of the Committee sometimes I hear comments of other members and I wonder whether they are germane; however, I am polite and I do not care what—

The CHAIRMAN: In any event, our agenda this morning is in respect to the trust companies brief. This document has been made part of our record and it speaks for itself, now being a public document. If it is satisfactory to those members of the steering committee who are here, to stay for a few moments when we adjourn for lunch we will try and discuss where we stand. I would certainly appreciate this possibility being carried out.

This morning we have a delegation representing 12 trust companies. We have with us Mr. Jarvis Freedman, President of the Rideau Trust; Mr. Kenneth Cunningham, General Manager and Secretary of the District Trust; Mr. Stewart Ripley, Executive Vice-President of the Metropolitan Trust; Mr. L. P. Sauvé, General Manager of Lincoln Trust; Mr. Hal Soule, President of Hamilton Trust; Mr. John Burnett, Secretary of Lincoln Trust, Mr. Sinclair Stevens of the York Trust and the Hon. Ellen Fairclough, Secretary of the Hamilton Trust.

I believe, Mr. Stevens, that you will be the principal spokesman for your delegation; that being the case, I will ask you to present your brief to us and we will proceed to our questioning.

Mr. S. M. STEVENS (*President of York Trust and Savings Corporation*) Thank you, Mr. Chairman. As your Chairman has indicated, I am, at least, at the beginning, the principal spokesman for the group but I would emphasize that I have other people here with me who, if you care to direct any questions to them to the best of their ability, would be very willing to try to answer any points which you may care to raise.

In appearing before you, we felt we should, perhaps, first clarify why we are appearing before you; a federal committee looking into the Bank Act. As you have probably noted in reviewing our submission, many, if not all—I think possibly with the exception of one or two of the companies that have joined in this brief—are actually provincially incorporated trust or loan companies. I would make clear, therefore, first of all, we feel that it is in the public interest for you to have as much testimony as possible touching on this extremely important point, namely, what revisions should be made to the Bank Act.

We feel this in view of the fact that our Canadian banks, largely owing to the effect of the Bank Act, are an integral and perhaps the most important part of our entire financial system in Canada. This financial system is just one complex. A change in one aspect of the system quickly has repercussions in another segment of the financial system. Nowhere is this more true than in this question of banking legislation. It is the real heart and soul of the Canadian financial system.

So we, as a group of 12 companies who knew as long ago, of course, as two or three years ago that there would be revisions to the Bank Act, felt that we

must meet and discuss among ourselves how we feel bank revisions may or may not affect our type of company and, in general, the public in Canada. As long ago as last May—I believe, the proposed revision to the Bank Act came in, in July—these companies commenced having meetings, at which time we discussed what we felt were the relevant points under the Bank Act as we anticipated it would be coming into form in July. As a result of these meetings, and I think in total we have had about seven meetings, we prepared the brief, which you have before you, setting out some of what we regard as the highlights to be considered when you are reviewing the Bank Act.

I would emphasize, therefore, that our main point is that we feel the Canadian financial system is a composite system in that we, as trust and loan companies, fit into the system; but anything that you might do in the Bank Act could have consequences for us in the trust and loan side and we want to, at all costs, make sure that whatever balances exist in the Canadian financial system at the present time, are not, even inadvertently, knocked out in order to cause a lessening of competition in the Canadian financial system I feel that we, as a group, would not be putting it too strongly to say that any lessening of competition in the Canadian financial system will benefit, perhaps, some but it is certainly going to hurt the general public in Canada.

Having said that, I would perhaps, just touch on what we feel are some of the highlights in our brief and, as your Chairman has suggested, then leave it open to you to ask any question you would like, since I understand you have all had an opportunity to review the brief to some degree.

I would mention that we, as a group, have perhaps, one common denominator and that is that we have all largely come into the field over the last five or six years. I think this has been a very encouraging thing in Canada, in that in spite of the fact that we had, perhaps, a period of 40 years where there was virtually no new competition coming into the savings field in Canada, there has been over the last, say, five or six years quite a new breeze or a new spark of competition. These 12 companies are part of that competition which have come into the field. The schedule which we set out at the back of the brief indicates the extent to which we have come into the field including the amount of equity that has been raised during this period and the actual amount of funds which have been won in the form of deposits or in some type of guaranteed security.

I would mention that in spite of the fact that these companies have been active mainly over the last five to six years, they now have some 70 branches and there are something over 180,000 people—Canadians—dealing with these companies. The most important point I feel, as I mention on page 1 of the brief, is that:

> Taken in isolation, the proposed Bank Act amendments will tend to enhance and consolidate the already dominant position of the chartered banks in Canada.

This may be, if not the key, certainly one of the most important points we would like to leave with you. We do not have any particular objection to the proposals in the revised Bank Act such as interest rate ceiling modification or elimination; but we stress that if the Bank Act is amended and legislation which affects other concerns within the financial system is not amended in order to give

compensating advantages to those institutions, the balance which now exists among the financial institutions could easily be disrupted in favour of the banking interest which in turn would mean a lessening of competition in Canada.

We feel the term, which is certainly encouraged by the banking industry, namely near banks, is a term which is not accurate. Under the definition in the Porter Report, we feel that we are banking institutions in that a banking institution in the Porter Report is referred to as any financial institution which issues transferable, demand and short-term claims with an original term up to 100 days. Under that definition, all of the companies represented here today, are banking institutions.

Again, on page 2, we highlight the fact that the Porter Report really advocates pretty well exactly what our brief is advocating and that is that the system should be opened up. Additional powers should be granted to certain of these banking institutions which they do not have at the present time. You will notice the quotation we have on that page touches, really, on the trust and loan companies when they refer to banking institutions, and mentions the fact that they should be free to make personal loans and that they should have access to Bank of Canada facilities or some such facilities.

Again, at the foot of page 2, we mention that we think it is important that this Committee give consideration to whether the Bank Act should not be revised more often than the traditional ten year period. In Canada we have had a tremendous change in our banking and financial system since the end of the war, and yet there has been only one revision of the Bank Act during that period. Various figures in connection with this matter, we bring out in the brief but I think our main point is that the Canadian system is becoming so vibrant, is growing so quickly, and there are such important changes taking place—certainly yearly—that it may be too infrequent to have parliament passing on the Bank Act every 10 years. Now, as I understand it, there is no reason why you cannot amend the Bank Act more frequently than 10 years and we are simply suggesting that it may be good to make this either clear or perhaps write right into the Bank Act that such revisions could be contemplated. If it was so, we feel that any imbalances that may appear as a result of your revisions of the Bank Act could very quickly be corrected and put back on to what would be a more satisfactory basis.

On pages three and four of our brief, we emphasize the tremendous distortion in the financial system between the banking segment of the system and the other side of the banking group. We point out, for example, that one of the banks alone would have in gross assets more, as far as intermediary funds are concerned, than the entire trust and loan industry put together. We do this to try to underline the fact that, as far as competition is concerned, if there is any tendency to extend still further advantages to the banks, it could only result in a lessening of competition in that the banks have this dominant position. So, what we are saying is that in extending further advantages we must, we feel, be very careful to make sure that there are compensating advantages to those who do not enjoy this very dominant position to which we are referring.

On page 4 you will note we point out that the banks in the aggregate in Canada in August of last year had 5,786 branches. This compares to the trust and loan industry having something like 500 offices.

In short, coming up to our specific points, we are saying that you are dealing with the most vital piece of legislation in the entire financial system. We urge you not to look on it as an isolated matter but that you bear in mind that any change you make in that will have an effect on the other banking institutions in the system. We feel that before you make a change in the Bank Act you should consider, perhaps, amending other legislation to ensure that from the date the new Bank Act comes into force the compensating advantages which you care to give as a parliament to the other competing banking institutions will be there from the day the banks get their new advantages.

Dealing specifically, then, with this question of what are the points that we would ask you to consider, not necessarily in the Bank Act, but at least consider should be dealt with before you revise the Bank Act, we touch on page 6 on such items as the question of giving the privilege of making unsecured loans for consumer credit to companies that are competing in the banking field with the banks. This is something which comes very, very close to this question of competition, in that in the trust and loan field you deal with your public very much as a bank but at the present time, if you have a customer who requests a personal loan to buy a car or some other thing of a personal nature, it being an unsecured type of transaction in the sense of the trust and loan companies legislation, trust and loan companies are unable to service that type of business with the result your customer will go either to a finance company or possibly to a bank.

This often results in the banks, for example, saying: "If we make the personal loan we feel we should have your entire banking business", and it puts the trust and loan company in a disadvantageous position in that it does not have it within its power to make such a loan as the bank has. On that point, perhaps, I should have mentioned that speaking very, very generally, I think it is important to remember that the banks, under your Bank Act, have virtually all financial power, with the exception of those powers which are precisely prohibited. For example, up until this revision they could not go into the mortgage field. But generally speaking, the banks have virtually all financial powers within their charters as a result of your Bank Act. The other banking institutions are the reverse.

The trust and loan companies, for example, have only the powers that they are specifically given under their acts. Any residual powers are not theirs. Now, I think it is important, perhaps, in considering the Bank Act, that we bear that in mind. It is such a wide act compared with the acts which empower the trust and loan companies, which are restrictive.

On the same page we touch on item 2. This is a point, namely, deposit insurance, which we were very encouraged on in that when we commended our discussions in May, 1966, we were at best only hopeful that deposit insurance might be available to various banking institutions. I think it is very encouraging to know that such progress has been made that now it is generally felt—it is virtually certain—that some type of deposit insurance will be brought into the Canadian financial system at an early date.

On this point, however, we would stress that we think it would be very, very important that deposit insurance be passed and be effective at least at the same time that the proposed Bank Act, as revised, becomes effective. We think

the suggestions which have been raised by certain bankers that first of all deposit insurance is not necessary with respect to their institutions, and, in the second place, that it is an undue burden or a costly burden for them to bear is something which should be refuted. First, on the point that it is not something that the banks require, I would suggest that we refer to Mr. Paton's own testimony before you, as President of the Canadian Bankers' Association. It is very significant that he makes the point—and I am referring to page 1601 of the testimony given on November 24 before this Committee: Mr. Paton says:

> Your reserves must always be more than ample to meet the contingencies of this situation, and even if they are more than ample the impact on them at any one time under certain conditions might be quite severe and the publication of this impact could have a detrimental effect on public confidence. It also might happen that one particular bank might have unfortunate experiences, and not only could public confidence be impaired in them it might apply to the general banking community at a time when it would be unfortunate for it to do so. Any time would be unfortunate, but some times can be more unfortunate than others, depending on conditions.
>
> The other main point is that banking is a risk business and calls for a lot of experience, anticipation and a certain amount of hope—

This, gentlemen, is the President of the Canadian Bankers' Association pointing out the situation with respect to the suggestion that they be required to show inner reserves. We suggest that if they feel they are in that position surely the argument can be raised that the question of deposit insurance is a very valuable thing for them also as well as any other banking institutions which it applies to.

Again on this point, I would mention that the December, 1966 issue of *Fortune* paints a very vivid picture of the liquidity problems experienced by one of the largest banks in the world—the Morgan Guaranty in New York City—during the fall of last year. I think it is very interesting reading for each of you if you have the time. They describe the liquidity squeeze—and as a rule it is the liquidity squeeze which is the most embarrassing thing for any banking institution. During that period, for example, at one point they had to sell $200 million of municipal bonds at a $15 million loss. This, gentlemen, is a bank which is possibly larger than any bank in Canada and, yet, they had a very awkward period to go through in the fall of 1966, as is related in the December issue of *Fortune*.

Let me touch then on a second point, namely, that certain bank presidents—and I think you will probably have noticed in the press their comments on the question of deposit insurance—stated that they feel that it is an imposition on them in that they, in effect, are supporting their competition. They do not need it; they are supporting their competition. This, we would point out, is not so, in that the fees that would be charged under the deposit insurance are all ratable. In other words, the institution with $10 million of deposits pays rateably the same as the institution with a million dollars.

On that point, I would also mention though that we, as a group, find it rather remarkable that the banks asked, and as I pointed out earlier, we do not

disagree with this point, that the Bank Act relieve the interest rate ceiling or at least modify it. This, perhaps, will give them the benefit of being able to earn on their resources at least a half of one per cent which is possibly one full point more than they are currently earning on their resources. Surely it could be argued that if you were giving them that advantage to earn that much more on their resources, that the fact that you request or that in the deposit legislation they be required to pay one-thirtieth of one per cent for deposit insurance is not too much of an undue burden on the banks.

So, to summarize, we feel that deposit insurance would be a very valuable thing to have in Canada not only with respect to our institutions but generally with respect to all institutions which are taking deposits. We also feel that the question of deposit insurance is an urgent one though, in that to preserve the balance—the competitive balance that we speak of—it should be brought in as soon as possible, and, under no circumstances should it not be brought in if the Bank Act—I should reverse that. The Bank Act should not be revised if deposit insurance has not been passed and is effective at the time the proposed revisions to the Bank Act are made.

Again, on page 7, we touch on the question of recourse to the Bank of Canada or some such body. This is a privilege enjoyed by the Canadian chartered banks and certain of the money dealers. This, we feel, should be made available to all banking institutions. It touches on this question of liquidity and it is a very valuable thing for any banking institution to have available to it. Again, though, we are encouraged in that the act which is now before parliament touching on the Canada Deposit Insurance Corporation provides for this type of recourse and we would urge that this matter be dealt with prior to the revisions of the Bank Act.

Our item No. 4 is something which is, I think, of considerable importance to other banking institutions. At the present time our clearing system is designed so that the Canadian chartered banks through the Canadian Bankers' Association handle clearing of all checking privileges in Canada. This means that as trust and loan companies you are in the position where if you have checking accounts, your cheques have to clear through a rival or competing institution, namely, a bank. To put it, perhaps, overly simply, a chartered bank has an account in the name of your trust company. That account is no different really from the personal account you have with your own bank. The trust company though is given the privilege of writing not only their own cheques on that account but also their customers, in drawing upon you, can automatically draw upon your account in the bank.

We are suggesting that this is inadequate and that the trust and loan companies should be allowed to come into the clearing system as equal partners and handle their own clearing facilities themselves as the competing institutions presently do.

On this point, it perhaps has been very vividly put in that Lincoln Trust, for example, asked to see the rules and regulations governing clearing in their area. They have 17,000 items a month clearing through their various branches in the Niagara Falls area of Ontario. They felt that they would like to know the position that they were in with regard to the clearing of those cheques, in that 17,000 items are a large monthly momentum to have under way. They wrote to

the Greater Niagara Clearing House requesting a copy of the rules and regulations that they, at least indirectly, had to work with. The reply was:

> In reply to your request for a copy of the rules and regulations regarding clearing houses the Canadian Bankers' Association advises that these are restricted to members of the clearing houses. No distribution is made to institutions having non-member privileges, the rules being a private matter between banks which alone have direct concern.

We are simply mentioning this to point out the disadvantageous position that other banking institutions are in, in reference to the chartered banks on this question of clearing. Again, I would summarize, we feel that if this could be modified before revision of the Bank Act it would be helpful to these other banking institutions.

On page 8 we touch on the question of subordinative debentures. Here we simply have in mind that it is being contemplated that other institutions will be given the privilege of issuing debentures in substitution for capital. In other words, there would be a middle layer between capital and the liabilities generally which institutions may have to the public. In this respect we feel that the other banking institutions should have the same privilege and be allowed to issue these debentures which, of necessity, will be of comparatively long term. I believe the legislation before you now contemplates at least five years. But this gives you the advantage of being able without actually issuing further shares in your institutions to have a deck instrument which in turn will not be included in your leverage calculations in determining the amount of liabilities you can otherwise incur from the public.

Item 6 touches on deposits by non residents. Here again I would emphasize this is nothing directly to do with the Bank Act, but in considering your revisions of the Bank Act I think it would be helpful if parliament could consider giving the advantage to other banking institutions which banks now experience with regard to the 15 per cent withholding tax on foreign currency deposits. This is something which touches our institutions particularly at border points such as Niagara Falls, Windsor, or in any of these points where because of cottages or some other reason you find Americans, in particular, wish to open banking accounts with trust and loan companies. At the present time the trust and loan companies have a disadvantage in that in paying interest to those institutions they must withhold 15 per cent; whereas the bank can pay net of any withholding tax and, consequently, it is very hard for these institutions to compete effectively against the bank which does not have that handicap to work under.

On page 8, again I refer to Mr. Paton who I identify as President of the Canadian Bankers' Association, and think he put the bankers' case very clearly when he said:

> If the ceiling is lifted,—the banks will be able to attract more deposits away from the so-called near banks and make more loans to business and small borrowers.

Gentlemen, what we are saying is that we have no objection in particular to the ceiling being lifted but we feeel that in considering your revisions to the Bank Act you should be very cautious as to what those revisions may do in relation to the other banking institutions in the community, and that no move

should be made which would lessen competition within that community. In any event, if for no other reason than inadvertence the Bank Act is revised in some way which does create an imbalance, it should be clearly understood that it could be amended quickly—you certainly would not have to wait 10 years—in order to ensure that whatever imbalance has been created can be corrected and that we can have more competition in Canada rather than less.

The CHAIRMAN: Thank you Mr. Stevens. Well gentlemen, the brief obviously falls into a number of categories, and I welcome your suggestions on the method of procedure. I might recommend that we begin by discussing the preamble, particularly in so far as it deals with the general surrounding circumstances of the operations of the Trust company industry, and then move on in order to the specific recommendations. Would this seem to be practical?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have one point in mind, Mr. Chairman. Mr. Stevens advanced a number of proposals for widening the powers of the trust and loan companies. It does seem to me that because they all stand together, as it were, there is not much point in discussing in isolation such things as the lender of last resort request or the clearing house facilities. The whole thing seems to me to hang together.

Mr. LAMBERT: Mr. Chairman, I hope Mr. Cameron is not suggesting that we should question Mr. Stevens and his associates by having one member talk about deposit insurance, another about the interest ceiling, and so on. This is precisely what we have been trying to avoid. There is a general picture, first of all, and then there are the specific recommendations. I would hope that we could keep our discussions in that framework.

The CHAIRMAN: What I had in mind was this: A large portion of the preamble deals in a descriptive way with the operations of the banking institutions represented or reflected by Mr. Stevens and his associates. Then there are a number of specific proposals. I would suggest that insofar as any aspects of the preamble can be linked more specifically with any one of the proposals, that it be dealt with in the course of considering the specific proposals. In other words, I do not suggest that we eliminate discussion of the preamble insofar as it goes beyond the general background of the nature of the industry, but rather that those are other aspects of the preamble to be linked to the specific proposals. Would that be satisfactory? If it does not seem to work, then we can modify our procedure as we have done on a number of occasions in the past. The only way to find out, of course, is to give it a try. I will recognize the members in the usual manner. Mr. Lambert has already signified, followed by Mr. Davis, Mr. Cameron and Mr. Laflamme.

Mr. LAMBERT: Mr. Chairman, I am rather intrigued by the insistence in this brief of the description of the organizations of these various trust companies and banking institutions. This of course is rather an obvious comment on my part. With the exception of two of the members of this association, they are within the Province of Ontario. However, I am sure that there are a number of others with whom they have some connection, and I am just wondering whether they have communicated to their provincial governments the thought that they are banking institutions, and what the implications of being banking institutions would be under the BNA Act, where there is a 100 per cent reservation of exclusive

jurisdiction to the Government of Canada over banking currency and interest. Some of the Provinces are making very loud noises with regard to their jurisdiction in connection with banking institutions, if I may use that term. Have you any comment in regard to that?

Mr. STEVENS: Yes. On page 1, as I think I mentioned, the reason we use "banking institutions" is that the Porter Commission Report, in a blanket sense, used this term in reference to any institution which took in money on some type of call up to 100 days. Now in this sense all of the institutions represented in this brief are banking institutions. I am aware of the fact that naturally there are Federal Provincial disputes, if you like, as to where the various powers are situated. We as a group circulated ourselves and, I think without exception, uniformly agreed that if the various things that we are asking for here could only be granted if we were Federal institutions we would, if not collectively, certainly individually, be willing to apply for Federal charters in order to ensure that the compensating advantages that we feel we should have, can be granted to us. In other words, we are saying, technically, that we are provincial, but if the only reason that we cannot be granted certain of the advantages that we feel should be forthcoming is the fact that we are not a Federal institution—there are some Federal institutions here, but I mean those that are provincial—the provincial ones would be willing to reapply and become chartered federally.

Mr. LAMBERT: Well you are adopting the definition "banking institutions" then. In your affirmative reply do you feel then that you should come under the Bank Act?

Mr. STEVENS: One difficulty that we have in answering some of the committee members questions is that our presentation is as a group, in a sense, that we have met, prepared the brief, and we are telling you of our thinking. Now I do not know what the group would say in respect of some of the questions; I can tell you that I, personally would have no objections to coming within the banking legislation of Canada.

Mr. LAMBERT: There are further implications of course; if you come under the Bank Act then your operations would be subject not only to the rights under the Bank Act but certainly under some of the obligations or responsibilities. I do not think you would go so far as to say that because of the fact that you call yourselves "banking institutions" we would then place an umbrella over you, and you would become chartered banks via the back door. To me there is just a little bit of an element in some of the representations of having one's cake and eating it as well. I just want to get that clear because, Mr. Stevens, you undoubtedly have followed these proceedings and you know my views not only now but when you were before us under another hat.

Mr. STEVENS: A Western hat.

Mr. LAMBERT: Yes, under a "Western hat". Under the Bank Act there is this question of control of banking and banking branches which are under the control of chartered banks and near-banks, so far as regulations particularly are concerned and perhaps matters regarding protection for the public, reserves and all this. That is why I am intrigued by the point of view on behalf of your group that you are "banking institutions", and that the limited practices that you engage in are banking practices and therefore come under the umbrella, in spirit

at least, of the Bank Act. As a group, are you seeking both the privileges and the obligations under the Bank Act?

Mr. STEVENS: No. I would say that we are seeking what we set out there in that we feel that the advantages that we have and the disadvantages that we have are such that in our competition with the banks, consideration should be given to the fact that if the proposed provisions to the Bank Act give certain further advantages to the banks, there should be compensating advantages given to institutions such as ours in order to ensure continued competition. What I have said simply reiterates what the Porter Commission Report very strongly advocates.

Mr. LAMBERT: Well there are two ways of approaching that. Either one says that the rules of the game shall be the same for all concerned, and therefore you are all in the same game and subject to all the same rules. That is one way of approaching it. The other way is to take the Bank Act and set it up in compartments, whereby you have certain rules applying to the chartered banks, certain rules to banking institutions of a type like yours, and that the two sections be compensated—which is perhaps what you are aiming at—so that there will be rough equivalents. What would you favour in this regard, or if have you some other version to give.

Mr. STEVENS: One problem in this field is that the trust companies themselves have two main functions. There is a fiduciary function or an agency function, in which you are acting as trustee on various matters. Now some trust companies stress this side very, very heavily; in fact the main part of their business is this fiduciary type of relationship. The larger trust companies, in fact, would be predominantly fiduciary organizations and are often allied with chartered banks.

Mr. LAMBERT: I noticed that. Could you include in your testimony sometime what evidence you have and to what degree precisely this relationship exists. There has been some pretty loose talk in regard to this.

Mr. STEVENS: Yes. Now to come to the other side of my point, the other function which trust and loan companies have developed is an intermediary function where they are taking in funds and re-lending those funds, and in that sense they are performing a banking function as that term is defined in the Porter Commission report. Now the reason that I draw this distinction is that it is in that secondary activity that we are really speaking to you today; it is this intermediary function which is the banking function. In the United States this function probably would be more similar to the savings and loan type of function of some of the institutions in that union, whereas the banks are one thing and then you have the savings and loans. I think possibly where some confusion comes in is that in the United States system the federal authorities and the provincial authorities are very careful in adjusting their mechanism to ensure that there is not an imbalance between the savings and loan industry rate of growth and the banking rate of growth. I think it was some time in the spring of 1966 that an imbalance did appear very quickly in that the chartered banks on the Eastern coast were allowed to pay more on certain of their certificates of deposit, which caused quite a flow of funds to the east out of the savings and loans industries, particularly in the West. Now seeing this, the mechanism of the federal authorities, after a few months, was to force the eastern banks to

lower the amount that they could pay on their funds and this caused the flow to at least subside and start returning to those institutions in the west. The reason I point this out is because we in Canada have no such mechanism and if through revising your Bank Act you give too much advantage to the banks with the predominant position they are presently in, they could make it relatively difficult for these other institutions, because they are banking institutions, to remain competitive with them.

Mr. LAMBERT: You will also admit that part of the action you mentioned in the United States was also a first time step by the F.D.I.C. to order a roll back on interest rates payable by savings and loan associations to correct a competitive disadvantage. When we discuss deposit insurance we will inquire whether you people are prepared to accept roll back provisions. They are not in the act at the present time, but they may be included in the regulations. I do not know what the government's thinking is in this regard.

Mr. DAVIS: Mr. Stevens, in your contribution this morning you stressed competition. Would you comment on the fact that your trust and loan companies are in a broad area of finance, we might say, or in a broad field and you are opposed to compartmentalization. You see different areas of responsibility or different functions and they vary over the field, but essentially you would like to see the rigid compartmentalization eliminated and an upluring of the lines between these departments of activity. Purely in economic terms, would you then, perhaps, prefer one umbrella in terms of rules and regulations that would apply to the entire field rather than several different levels of jurisdiction, for example. Would that be the preference in economic terms of your industry?

Mr. STEVENS: I do not think we are going that far. Essentially what we are saying is that you are considering revisions to the Bank Act. We are not necessarily opposed to those revisions provided parliament is aware of the imbalances or the consequences which may follow to other institutions as a result of the added advantages which are given to the banks in the pending revisions to the Bank Act. In other words, what we are saying is that there is now a balance between these institutions, but it could easily be disrupted, and this is what we hope will not happen. If legislation is brought in, as we are suggesting, at the same time the Bank Act is revised, it will at least help preserve the present balance.

Mr. DAVIS: Yes. You are saying that upluring these lines is perhaps desirable, but the Bank Act essentially lures it in the sense of giving opportunities to the chartered banks and, of course, does not in itself give additional opportunities in the reverse direction, under the Trust and Loan Companies Act. In economic terms you would prefer to see more blurring of these lines, more competition.

Mr. STEVENS: In economic terms we feel the best thing for the nation is more competition in the financial system.

Mr. DAVIS: Which lends itself toward the argument that there should be one set of rules and regulations for the entire financial community rather than different sets administered at different government levels.

Mr. STEVENS: I would not want to appear to hedge on that, but I think I would have to say that this is not necessarily the case. I do not think there is that much wrong with the system provided something is not changed—

Mr. DAVIS: Self-adjusting.

Mr. STEVENS: —without taking into account the consequences to other institutions and amending their legislation in order to make sure that they are put into a position where they are at least as competitive as they were before.

Mr. DAVIS: You seem to endorse in your submission what you called the definition of banking appearing in the Porter commission report. As I recall it, the Porter commission itself did not claim to have come up with a definition, but it did endeavour to talk in meaningful terms and therefore had to use terminology similar to that which I think you have used, beginning at the bottom of page 1.

Has anyone in your organization or any of the other witnesses you have with you taken a good hard look at that so-called definition which you have outlined on page 1 and at the top of page 2? Have they any reservations or comments to make about that definition?

Mr. STEVENS: If you would like, I could have somebody check the Porter report to dig out where that quote came from.

Mr. DAVIS: I realize that that is a true quote.

Mr. STEVENS: I see what you mean.

Mr. DAVIS: The Porter commission had reservations and I am wondering what reservations your people had, especially if any one of them was trained in the law and is perhaps looking at this more from a constitutional point of view or from a legal phraseology point of view.

Mr. STEVENS: I think that in the context it is used here there is no need for any reservations.

Mr. DAVIS: You think this is effective and meaningful and would embrace your industry as well as chartered banks.

Mr. STEVENS: Yes, as defined by the commission.

Mr. DAVIS: As far as your industry is concerned this has real meaning and you have, as far as you are personally concerned, no particular reservations.

Mr. STEVENS: I think sometimes perhaps too much turns on words. Granted, it is difficult to define but it is largely a question of communication. If you have a deposit with us and it is returnable on demand or there is a chequing account or something like that, then in the sense that that is similar to some obligation that the bank may owe you, and they call it a chequing account or a savings account, the similarity is too great to say that they are not both banking type transactions. Do you follow what I mean? Whether or not you call one a savings account, a chequing account or some other type of deposit account surely they are very similar. It does not matter whether or not you call them banking operations. I think in the broad context this certainly is defined in the Porter commission report. They are similar enough that they are at least like banking transactions.

Mr. DAVIS: Then in your view the so-called near-banks would be included as banks and you do not have any reservations.

Mr. STEVENS: As I mentioned, there are two main functions carried out by the type of company we represent here. First, there is this fiduciary function,

and second, the other intermediary function which is the taking of money and the reloaning of that money at, you hope, a rate differential. I personally think there is a danger in putting too much emphasis on specific wordings. What I am saying is, both institutions are doing something that is, at least, very similar. The fact that the one calls it a banking operation and the other calls it some type of intermediary function is more a question of terminology. For example, in the United States would you call the savings and loan institutions banking institutions? Technically you probably would not, but on the other hand they are doing something quite similar to banking institutions, and they are very competitive with banking institutions.

Mr. DAVIS: You obviously find it difficult to readily find and use some word other than banking that is descriptive of their functions.

Mr. STEVENS: For example, when the banks referred to other institutions as near-banks, I think this was done to denote a very obvious point. What we are saying is that that is not really the point. They are two different types of institutions and both of them are in the money business. Perhaps it would be better to say that we are in the money business. The banks call their business banking, which of course it is, and we call our business the trust and loan or savings business. In that sense I think we are both quite accurate in what we say and perhaps if you are looking for some general word, we could say that we all are in the money business.

Mr. DAVIS: Yes. If you look at the Canadian constitution you will note that it says money and banking is a federal responsibility. That was the main reason for my question. Thank you, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Davis. Before I give the floor to Mr. Cameron I would like to tell the Committee that the quotation that was referred to at the bottom of page 1 can be found on page 363 of the Porter report. It seems that the Porter Commission attempted to define two items: banking institutions, banking liabilities. Their definition of banking liabilities can be found at page 378.

I recognize Mr. Cameron, followed by Mr. Clermont, Mr. MacLean, Mr. Laflamme and Mr. Wahn.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Stevens, I am sure that you have been following the proceedings of these hearings and that you must have realized that the point you brought up earlier in your submission with regard to the proper terminology to use for your operations is one that has been concerning this Committee quite a bit because, as I presume you are aware, the Bank Act specifically precludes any other institution except chartered banks using the term "banking and bankers". If, as I understand it and I may be wrong on this, you are now maintaining that you should be considered as conducting a banking business, are you then prepared to accept the consequences of a definition of banking being included in legislation that would then, is effect, be an assertion of federal authority over all operations of these institutions which you say do a banking business? This was my problem, Mr. Chairman, when you suggested the division of these matters. I notice the four suggestions you made for additional powers to your institutions would in effect give your institutions all the powers now exercised by the chartered banks plus those which you now enjoy and which are forbidden to the chartered banks. I think you would agree

that you have powers that are prohibited to the chartered banks. I am just wondering how you can reconcile this position unless you are prepared to accept the suggestion made by Mr. Lambert that you should become chartered banks. Have you any idea of how you could get around this? I realize of course that we are dealing, as you pointed out several times, with a very large and powerful series of institutions vis-a-vis some very much less powerful ones, but has it not occurred to you that if you made these requests there would be discrimination in your favour in the legislation. I am not suggesting that that may not be a good thing, but how can we achieve it? Would you be prepared, for instance, when you ask for lender of last resort relationships with the central bank, as a consequence to submit yourself to the cash reserve provisions of the Bank Act? can you answer that?

Mr. STEVENS: Yes. I think your question is very helpful in the sense that it perhaps enables me to make, I hope, our real point. You might say that we are in the savings business. In that sense we are similar to what the banks are in the sense that we take in funds on one basis or another either through the issue of guaranteed investment certificates or some type of deposit accounts; so, we are winning public funds. Now, where the great difference comes—and I only wish what you said was true that the advantage is on our side—is where we can invest those funds. Under the relevant trust and loan companies, both in the federal jurisdiction and in the provincial jurisdiction, we are limited as to where we can invest our funds. The main field which is utilized by these institutions is the mortgage field; in other words, a rough ratio of probably 60 per cent on average of the funds taken in by trust and loan companies goes into mortgage investing; the other 40 per cent is invested in some type of bond or other security as defined in the trust and loan legislation either provincially or federally. The banks, on the other hand, are in the position where they take in public funds, but as I mentioned earlier, the Bank Act is an extremely wide act in that it virtually empowers the banks to go into any field that it wishes in the financial fibre of this nation, with certain specific exceptions. One of the exceptions, which was brought in in the 1920's, was a direct prohibition against going into the mortgage field. That prohibition is at least being relaxed in the revision that is now before you. It is that type of added advantage which has been given to the banks, which we feel means that we, when we appear before you, should stress that when you are giving that advantage to the banks you must bear in mind that we, as institutions, under our legislation and charters have limited fields that we can go into. One of the main fields that we can go into is, in fact, the mortgage field. So if you allow the banks to come into that field and you do not give compensating advantages back to us, you can get the imbalance that I have referred to. The main point I would like to make is that without any counterbalance, imbalance will always favour the chartered banks because they have virtually all the powers within the financial field with the exception of those in which they are prohibited precisely. We, on the other hand, have only those powers that have been granted to us. Rather than say that we would have an advantage over the banks, if for example we were given the privilege of having unsecured loans, all that could be said is that we have been given one additional power that the banks already have.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But if you had the power to give unsecured loans and you were given the lender of last resort relationship

with the Bank of Canada, then would it not naturally flow from that that you should become part of the reserve system and submit yourself to the cash reserves requirement of the chartered banks?

Mr. STEVENS: I think this would be for your Committee and parliament to decide. The sense of what we are saying, or urging, is that there could be an imbalance here and we hope that parliament will not create it. I feel it is parliament's problem to ensure that the imbalance does not develop. We are pointing out though that there are being additional advantages granted to the banks; we feel that our position should not be forgotten, and that any legislation which can encourage the competitive balance to be maintained should be passed, not a year from now but as quickly as possible because, as we point out in our schedule, when you revised the Bank Act in 1954, the growth of the banks in the new fields they were then permitted—or they felt they were permitted—to go into was very, very sharp and pronounced; they can move very, very quickly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Possibly you may have studied the evidence given by Professor Neufeld to this Committee.

Mr. STEVENS: I have read it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You will have noted that he points out the development that you have referred to—and it has been referred to several times—in the financial institutions of the country, whereby the operations of trust and loan companies are becoming more and more like those of banks; and banks are moving into fields that have traditionally been those of the trust and loan companies. Professor Neufeld suggested that we should recognize this situation and provide some sort of an interim incorporation as banking institutions for the type of institution you are representing here. I do not have his report with me just now and I forget the details of his ideas on this score, but he seemed to think that this development is going to continue. As I recall it, he suggested that at the end of 10 years the operation would be indistinguishable, and that at that time all institutions, which under any logical definition could be called banking, would be brought under the same legislation. What would be your view on that, Mr. Stevens?

Mr. STEVENS: He is speaking, I think, in at least a semi-academic sense.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. STEVENS: My only hesitation is that I think in a practical sense that you, as a Committee, and parliament generally, have to take into account the circumstances of the entire industry including the trust and loan, the banks, and the other companies. I think that while academically, if you like, his suggestion is perhaps quite acceptable, the practicalities—I am talking about the provincial-federal jurisdictional problems and this type of thing—may be the more difficult element to solve. What I do feel is in the best interest of the country though, is that in one way or another, whether it is done as the professor indicates or otherwise, that parliament sincerely devise to ensure that there will be this competition that I think the country so urgently needs in the financial system.

The CHAIRMAN: Mr. Cameron, the Porter Commission made a somewhat similar proposal to that of Professor Neufeld, at page 363—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

The CHAIRMAN: —suggesting interim provisions if this type of institution were to be included under federal regulations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes. Earlier, Mr. Stevens, you did say that if it was not possible to have these expanded powers you speak of except by coming under federal legislation, that you, yourself—you were not speaking, I think, for your group would be quite prepared to accept that position to come under federal jurisdiction. I do not know because I am not a lawyer but I imagine that if the definition of banking were embedded in legislation, then there eventually would be a court decision on it; I imagine that it would be almost essential—

Mr. STEVENS: That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): —to determine whether federal authority could be exerted over the institution. I am assuming that this would be what would happen, and unless it was a favourable decision for the federal authorities, nothing could be done. I am still not sure how far you are prepared to submit yourself to federal jurisdiction. I presume you have included in that the operations of the inspector general of banking, and that you would come under his survey and his control. Again, I come back to this point, that if you are to have the authority to give unsecured loans—in fact, as I say, to have all the powers of the banks—then it would seem inevitable that you must become a part of the reserve system and accept the obligations of the cash reserve provisions in the Bank Act. Would you agree that this is a logical outcome?

Mr. STEVENS: I would like to clarify one point. For example if this power to make unsecured loans cannot be granted to us because of a jurisdictional problem in the sense of somebody saying that a provincial company should not have that power—perhaps it is adjudicated on, as you are suggesting—we individually say that we would be willing to apply for federal charters and become, under your trust companies act or your loan companies act, federal trust companies or loan companies as the case may be; then automatically the federal authority would have jurisdiction over us, and the superintendent of insurance would have us under his jurisdiction here in Ottawa. Now in answer to the question, does that mean that we would want to come into the reserve position which the banks have with the Bank of Canada, I think the two things are not directly related in the sense that at the present time you have federal trust companies and loan companies. For example, Mr. Tigert of International Savings is a federal company under the federal law. You do not necessarily have to have those companies keep reserves with the Bank of Canada to function in the fields they are functioning in, and I think quite properly. On the other hand, it is an entirely different question as to whether, in effect, you want to make all institutions in Canada banks. I think this is where the practicalities come in, in that there may be some institutions who would prefer to remain more savings institutions, mortgage institutions, and not become banks. On the other hand, I think this question of keeping the reserves with the Bank of Canada is something that can be overstated in a sense in that the absence of any formula as to how large a bank can grow in relation to its capital and reserves is a tremendous compensation in favour of the chartered banks in relation to whatever reserves they may have to keep with the Bank of Canada. I am referring to the fact that

most of our banks have ratios to capital and reserves of something like 20 to 1. By law, trust and loan companies are limited to a ratio of 15 to 1. In the United States it is general that banks have a ratio of 13 to 1. All I am indicating is that I do not think keeping a reserve with the Bank of Canada is as awesome a thing as sometimes it is made out to be.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands):* I would assume that you would welcome a relaxation of this prohibition of expanding your assets in relation to your capital.

Mr. STEVENS: Do you mean, allow us to go to 20 to 1?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

M. STEVENS: We, as a group, have not considered that; in fact I do not know what to say.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands):* This it is not a trick question—and I have some sympathy for you—but you stated that you want to put your institutions in a position to compete more effectively with the banks; that is, to grow at a greater rate in relation to the bank's growth than is permitted at present. Is that a fair way of putting it?

Mr. STEVENS: No; I think we are saying that we hope a system or a climate will be preserved where we can suitably compete with the banks—not necessarily at a greater rate but at least be in an equally competitive system with the banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands):* Well, can I put it this way. You would hope that the share of the business which now goes to the sort of institutions you represent would increase to become a greater ratio of the total than at present is within your powers.

Mr. STEVENS: In the sense that that would mean more competition within the general Canadian financial system, I think this would be good. In other words, it is unfortunate that our banking system has got concentrated into such large institutions. If we cannot have—I do not know how many—let us say, 10 new banks actively taking a fair section of that business, I think the next best thing would be to have some other institution, such as we represent, taking a larger section off the general Canadian financial climate in order to ensure more free interchange and competition.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands):* But I do not imagine that your main concern is the notion of competition so much as the benefits that will accrue to you from being placed in a better competitive position.

Mr. STEVENS: Well—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The point I have in mind is this, Mr. Sinclair—and this has come up several times in our hearings. We have asked various witnesses, including the Governor of the Bank of Canada, if he considered that the growth of the near-banks in any way posed a danger to his control of the monetary system. As I recall it, Mr. Rasminsky said that he did not think it was the case at the present time, but that he was not sure what the situation might be in 10 years time. What I have in mind is that if you were successful in persuading the parliament of Canada to extend your powers in this way then that growth of the so-called near-banks might be accelerated to the

point where Mr. Rasminsky would have to take another look at it. This brings us back to the question of your connection with the reserve system and the cash reserve problem.

Mr. STEVENS: I think my comment there would be the same as our comment on the idea of having earlier revisions and more frequent revisions to the Bank Act, in that if there is an imbalance on either side I think the federal authorities or the provincial authorities, as they work it out, should be in a position to move relatively quickly to ensure that the imbalance will not result in a lessening of competition between one section or the other. This is really our main point. If, for example, the imbalance did occur too much in favour of the trust and loan companies, I think that it should be corrected, but certainly that is not the problem today. In fact, I think on page 5 of our brief we point out that in spite of the growth that has taken place over the last ten years, the trust and loan industry is only now back to the point that it enjoyed in the 1920's as far as percentage of the market is concerned.

Mr. LAFLAMME: I have a supplementary question, if I may. Did you not know, Mr. Stevens, that there has been an imbalance in favour of your institutions during the last five or six years, as stated by Mr. Rasminsky when he gave us the figures of your growth during the last period of time as compared with the growth of the banks. If the ratio is allowed to stand as it is, what will happen in the next ten years?

Mr. STEVENS: I am not sure I understood your question.

The CHAIRMAN: I think Mr. Laflamme is drawing your attention to the rate of growth of your industry as compared to the chartered banking industry.

Mr. STEVENS: I guess I would make two comments on that. First, that there was such an imbalance the other way around for about 40 years, from the 1920's down to the 1960's, that the trust and loan industry was virtually getting down to something, not zero, but an awfully small section of the community. However, they started to develop back—naturally percentages sound large but I am speaking in terms of real dollars, as we mention in our brief—but even today the entire trust and loan industry is smaller than some of the larger banks. In other words, one bank today would be as large as the whole trust and loan industry put together, as far as intermediary funds are concerned. I think the danger is that percentages might make it appear that we are growing very quickly in terms of chartered banks or, say, twice as fast, something like that, but in real dollars it is still a comparatively small growth. The only reason that it looks as if there is an imbalance in our favour is that for 40 years there was such a heavy imbalance the other way and competitively these companies were virtually going into a very, very small section of the Canadian financial system.

We are saying, that now you are contemplating a revision to this Bank Act, that we hope parliament will be cautious and ensure that the old imbalance does not come back for these institutions that have started to show a bit of spark and growth, that they will not be knocked back to where they were in the 1920's.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, further to the question put by Mr. Laflamme with regard to the growth of Trust and Loan companies as compared to that of the banks, I would like to express the version of Mr. Rasminsky, the Governor of

the Bank of Canada. Mr. Rasminsky appeared before this Committee the first of November, 1966, and replied the following to a question which I put to him and which you will find on Page 1046 of the Minutes of Proceedings and Evidence.

(*English*)

> Mr. Rasminsky, yesterday evening you made certain remarks concerning various operations of banks and financial institutions generally. You told this Committee that the assets and deposit liabilities of the banks over the last ten years has increased by 83 per cent. You added that during the same period the corresponding increase for near banks had increased 300 per cent.

Mr. Stevens, you mentioned that one of the reasons is that for 40 years the trust and loan industry had not increased, but that does not seem to be the only reason brought up by Mr. Rasminsky in his reply, which was:

> ...were affected by some special considerations, including some inhibitions or limitations on the capacity of the chartered banks to compete, resulting from certain provisions in the Bank Act.
>
> The proposed amendments to the Bank Act will remove some or all of these limitations...

According to the reply given by Mr. Rasminsky, it seems that the present Bank Act has some limitations on the banks as well.

Mr. STEVENS: I have not had the benefit of being able to read Mr. Rasminsky's actual testimony, but I feel that he is supporting what we are saying, in that the revisions as contemplated to the Bank Act are going to remove what would otherwise be regarded as certain limitations on the banks. If this is so, any imbalance that has been in our favour—and I do not feel there has been any imbalance in our favour, but let us say there was—is quickly going to change to the reverse situation, where the imbalance will be in favour of the banks and we will, in fact, be back to the position that existed after the 1920's.

(*Translation*)

Mr. CLERMONT: In the group of Trust and Loan companies mentioned in this Brief, how many have provincial or federal charters?

(English)

Mr. STEVENS: I believe I am right in saying that including the companies that appear on the addendum, which are the loan companies, I think there are three federally-chartered companies. The others would be provincially-incorporated, but some of those would be federally supervised. For example, Fort Garry Trust Company which is a Winnipeg incorporated company and Inland Trust and Savings Corporation Limited, which is another Winnipeg company. I am not sure whether Inland is a federal charter or not, but I know it is either federal or a Manitoba company and it would be federally supervised in Manitoba.

The CHAIRMAN: That is the arrangement the Manitoba government has with the federal government?

Mr. STEVENS: That is right.

(*Translation*)

Mr. CLERMONT: You mentioned in your replies to Mr. Cameron that if Bill C-222 is adopted by the House of Commons as submitted to us now, the chartered banks would enjoy an additional advantage because they would be able to make conventional mortgage loans, are you not aware that the percentage of these loans would be limited to 10 p. cent in accordance with clause 75(4)(a)?

(*English*)

Mr. STEVENS: I believe you are referring to the fact that rather than take the leash off the banks completely and say that they can go into the conventional field without any limitation, they have been given a formula that they may go in at a certain rate of speed. This is correct, but we feel that the important point is that this is a field that they have been specifically prohibited from being active in up to this date, and this is one of the fields which trust and loan companies have been most active in and naturally there is possibly going to be some disruption here. We are not frightened of competition in that sense; what we are saying is that it would be unfortunate if the new competition—and aggressive competition—which has been coming into the system, say, in the last ten years in some way gets frustrated as a result of the banks getting these extended privileges and powers. I really think it has been very healthy for the Canadian system that since the 1950's new competition has been instituted. For example, I know in our own situation in Toronto we have opened branches which have competed with banks on an hourly and rate basis. Sometimes we have five branches of the different chartered banks around us, and in some instances these banks have met our competition by doing exactly what we have been doing. They are open longer hours and I understand—I do not think this is public knowledge yet—the banks are going to open on Saturdays. This, I feel, is good. Let us have more competition, but let us make sure that the group that are at least in part triggering some of this new competition and this new service to the public, because this is all that we are talking about, is not put in the position where the banks have an unfair advantage over them. I think we must bear in mind the fact that the banks have a tremendous predominance in the field and if they are given an extended advantage they can move very swiftly, not to increase competition, but to lessen it.

Mr. CLERMONT: You mentioned that the banks may start the practice of opening on Saturdays. I understand that they may also open at nights.

Mr. STEVENS: They are, sir.

Mr. CLERMONT: The savings bank in Montreal does.

Mr. STEVENS: We will have 24 hour banking.

Mr. LAFLAMME: May I ask Mr. Stevens a few supplementary questions relating to the previous one asked by Mr. Clermont?

When you say that the banks will be allowed to loan on mortgages up to 10 per cent, do you not think this would help when there is a shortage of money such as we have had recently? It would help your own institutions; it would fill a gap.

Mr. STEVENS: The point I mention there is that when we speak of the financial system, it is all one system. Let us say there is $20 billion or $30 billion in the system. What we are really talking about is that the money has to be funnelled through either one or other type of institution. It either goes through an insurance company, a trust and loan company, a bank, a caisse populaire or a credit union. In the interests of competition, the more people who have access to those funds for their disposal, the more it ensures the best competitive position for the general public. The fact that you allow the banks to come into a new field does not mean that there is any additional money in that field. It means that they have to take it from some other place.

Mr. LAFLAMME: But it could be controlled through the Bank of Canada.

Mr. STEVENS: That, of course, gets into the question of just how big the Bank of Canada wishes to create the economic system, which is an entirely different question. What I am saying is that in effect it is just like one loaf; it is a question of whether you want it sliced into 100 parts or 5 parts.

(*Translation*)

Mr. CLERMONT: Mr. Stevens, when you mention on page 3 of your brief that on the 30th of June 1966, the Trust companies had total assets of three and a half billion, do you mean all trust companies with provincial and federal charters?

(*English*)

Mr. STEVENS: That would be right.

(*Translation*)

Mr. CLERMONT: Moreover, are you not an expert on financial matters. Were you not one of the interim directors of a group who came before this Committee to obtain a charter on behalf of the Western Bank?

The CHAIRMAN: Would you, please, repeat your question?

Mr. CLERMONT: It is not just the Trust companies that are on the Canadian market to get loans. There are the Credit Unions, the Caisses populaires who are also on the market. It would also be helpful for the Committee to know that the Caisses populaires and Credit Unions have about two and a half billions in their deposits. So, the difference between other institutions and banks would be less if the two and a half billions were added to the deposits in the Trust companies?

(*English*)

The CHAIRMAN: Do you follow Mr. Clermont's point? He feels that if you add in the assets of the caisse populaire and the credit unions to those of your group, the difference between the chartered banks and these institutions taken as a whole is not as great. Do you have any comment on that question?

Mr. STEVENS: I cannot remember the exact figures but I think if you add in every institution which you are referring to, the banks still have 50 per cent of the system. The $20 billion that the eight banks control in Canada—it is over that now, I think, it is $21 billion or somewhere around there—is at least equal to 50 per cent of the entire system if you throw in everything else, even including the life insurance companies.

(*Translation*)

Mr. CLERMONT: Mr. Stevens, you said it was very much in the public interest that there be greater competition in the future. Are you satisfied with Clause 76? Do you feel it is going to create greater competition for the banks to have to give up, before the 1st of July 1971, all voting shares in excess of 10 percent that they might hold in a Canadian or foreign enterprise or company?

(*English*)

Mr. STEVENS: Appearing on behalf of the group as we are, I would rather not comment on that particular section because I do not think it has any direct bearing on us. I would suggest that I do not think, as the so-called spokesman for the group, I should make any comments.

Mr. CLERMONT: Why? You do not seem to have any objection to appearing for this group when you are a provisional director of a bank.

Mr. STEVENS: I am no longer a provisional director.

Mr. CLERMONT: You are an acting director?

Mr. STEVENS: I am a director, yes.

Mr. CLERMONT: But you do not find it difficult to appear here in a dual capacity. You are a bank director and you are represented here as an owner or a member of a group of trust companies.

Mr. STEVENS: I would say on that point that the types of things which we are discussing today in relation to the trust and loan companies are not so dissimilar to the problems which the Bank of Western Canada, and any other new bank, will have to meet when it attempts to come in and compete in the Canadian financial system. Essentially what we are saying, and while in my own personal position the Bank of Western Canada does not have any immediate problem with respect to whatever you do in the Bank Act—

Mr. CLERMONT: They will, because within 10 years you will have to release a big share of your—

The CHAIRMAN: Mr. Clermont, I think what you say is quite right, but Mr. Stevens is appearing here with this particular group of trust companies and, with respect, I wonder, really, if at this stage we are dealing with the subject matter in an appropriate way by asking him about his personal views with respect to links between trust companies and banks. It may be that after we exhaust the subject matter which this group wishes to discuss with us that we will have some time to ask questions on other issues. I think this might be an issue we could then look into.

Mr. CLERMONT: Mr. Chairman, my question was in response to the answer which Mr. Stevens gave to my previous question. I asked him to comment on clause 76 of Bill No. C-222 and he said that if this clause is adopted by parliament as it stands we will have more competition in the financial field. That is why I asked my second question, but Mr. Stevens preferred not to make any comments. If he does not want to make any comments, then that is the end of my questioning, sir.

The CHAIRMAN: First of all, are you in a position to make any comment with regard to that question on behalf of the group? Does the group have any view on this at the moment?

Mr. STEVENS: No. As I mentioned before, the problem is that I do not feel I should comment unless the group have specifically considered the question of clause 76. Speaking personally, I would say that if clause 76 is designed to ensure more competition—and I emphasize this—I feel that clause 76 is good.

Mr. CLERMONT: Thank you, sir.

The CHAIRMAN: As it is about seven minutes to one o'clock perhaps we could recess at this time. Will those members who are on the steering committee remain for a few moments, please.

AFTERNOON SITTING

The VICE-CHAIRMAN: Gentlemen, I see a quorum. I have a report to present from your subcommittee.

(See MINUTES OF PROCEEDINGS)

Mr. CAMERON: I move concurrence in the report.

Mr. MORE (*Regina City*): I second the motion.

The VICE-CHAIRMAN: All those in favour?

Motion carried.

When we recessed Mr. More's name was on the Chairman's list.

Mr. MORE: No, there were several ahead of me. I know that Mr. McLean was ahead of me.

The VICE-CHAIRMAN: I might ask that a new list be prepared. Gentlemen, would you kindly indicate to me if you have any questions to ask of Mr. Stevens or the other witnesses.

Mr. MCLEAN (*Charlotte*): I think I come after Mr. Clermont.

Mr. MORE: That is right. I think Mr. McLean was next.

Mr. MCLEAN (*Charlotte*): I think he was finished.

The VICE-CHAIRMAN: Yes, I think he was finished. That is why I thought Mr. More was next.

Mr. MORE: No, I was not. Mr. McLean was ahead of me and I do not want to usurp anybody's position.

Mr. GILBERT: Mr. Stevens, this morning you said that your group comes within the Porter Report definition of banking and banks. That definition set forth in the Porter Report would also include the caisses populaires and credit unions but it would not include finance companies, and finance companies form part of the financial system. You say it is all one system. What would be your observations with regard to that?

Mr. STEVENS: First of all, I would like to clarify the fact that we are presenting the views of the group in relation to what we feel is significant as far

as the Bank Act provisions are concerned. In other words, what we as trust and loan companies feel is significant for you, as a committee, to hear.

On the point that you raised, the caisses populaires, the credit unions or the finance companies, I can only comment on this from a purely personal standpoint. My comment would simply be that if you follow the definition of the Porter Commission Report, even finance companies, if they issue some type of an obligation maturing under the hundred days, would be carrying on banking. They would be carrying on a banking type of endeavour.

Mr. GILBERT: My understanding is that that would not have covered Atlantic Acceptance. It may have covered Prudential, but not Atlantic.

Mr. STEVENS: It would have on their 30, 60 and 90 day type of obligation.

Mr. GILBERT: It would have even covered Atlantic Acceptance?

Mr. STEVENS: Oh yes. I am only indicating a wide interpretation of the Porter Commission Report.

Mr. GILBERT: That definition?

Mr. STEVENS: Yes.

Mr. GILBERT: You indicated to Mr. Cameron that you in your personal capacity, and possibly your group, would not be inclined to come under the Bank Act. You indicated that you might be prepared to come under the federal act, the Trust and Loan Act. You have indicated that 60 per cent of your business is in mortgages. If we pass the present bill as it now stands and the banks get into mortgage financing, do you anticipate a decline in your investment portfolio with regard to mortgages?

Mr. STEVENS: It is difficult to say whether there would actually be a decline. One point that has been raised is that if you refer to table 2 on page 11 you will notice that when the banks first came into the NHA mortgage market after the passing of the 1954 Bank Act, they came in at a tremendously rapid rate for three years, 1957, 1958 and 1959. This had quite a disruptive effect on those other institutions that were in the NHA field, in that they suddenly had a new competitor who was becoming very significant. In fact, I think we mention in the brief the percentage that the banks actually took of the total private placement of NHA funds during that period. Then they pulled right out again. They felt that because of interest rate problems, or something, they could not remain in the field. This had a disruptive influence. We think it would be unfortunate if they are again allowed to come into the conventional mortgage field as it would possibly have a disruptive influence in that field, which is our field to the extent of 60 per cent of our assets. Now, you asked me, "Will that mean that we will have less?" Our main point, I think is that given the competitive advantages that we feel we should be getting, we are not worried about actually having less provided we feel that we can keep in competition with these banking institutions. In other words, one of the big points is that we feel we can hold our own in the mortgage field provided we can attract funds in competition with the other institutions in the country that are also trying to attract funds. You obviously cannot hold your own if you cannot carry on attracting funds.

Mr. GILBERT: The banks are also going to have the right to issue debentures, which will be another feature of attracting more deposits.

Mr. STEVENS: But those debentures will probably appeal to a different section of the financial public. In other words, they may be bought by these institutions or people interested in longer term types of securities; bond buyers.

Mr. CAMERON: I have a supplementary question to the one Mr. Gilbert was asking you, and your answer to that question, which was with regard to the fact that the entry of the chartered banks into the NHA loan field had taken away a great deal of business from the existing lenders. I wish to ask you this because of your emphasis on the competitive features. Does this not imply, Mr. Stevens, that the banks which were operating at the time under a 6 per cent limit, were undercutting the others in interest rates? Could you not have met their rates?

Mr. STEVENS: In the NHA field the rates are uniform at any one time.

Mr. CAMERON: How did the banks have an advantage in that way?

Mr. STEVENS: It was partly the branch network, and with something over 4,000 branches it is a network and if the head office for instance, of the Bank of Commerce says, "We are wiliing to put out NHA funds", their 1,300 branches can very effectively put money out quickly. We are saying that this is good in a competitive sense provided compensating legislation is passed on the other side to make sure that those institutions such as trust and loan companies, who are in the field, are not put into the disadvantageous position where they cannot continue to attract funds and also compete in that field.

There is something else in relation to your two questions that perhaps I should reiterate in case I was not clear. Essentially what we are saying is that we feel there is a role for our type of institution in the Canadian financial fibre. In other words, there is a role for the trust and loan type of company. We feel that certain legislation should be passed which would give us compensating advantages to the tremendous advantages that are going to be given to the banks under this proposed revised Bank Act. In saying that, we are quite prepared to accept any regulation that it may be felt is required to give these extended advantages to trust and loan companies. In other words, we feel this is a role for this type of company other than simply becoming another bank. Do you follow what I mean?

Mr. CAMERON: Yes.

Mr. GILBERT: Suppose you do not receive these compensating features such as entry into the personal loan field, and so forth, what effect will it have on your companies? Will you be getting back to your 1920 position?

Mr. STEVENS: We could.

Mr. GILBERT: Is that not why Professor Neufeld felt that you should come in under the umbrella of the Bank Act and, in fact, he indicated that you should not only come in but you should have the advantage of retaining your fiduciary position, and the banks should not have the same privilege for a period of at least ten years, at which time it would be reviewed. What concerns me is that if we pass this act the way it stands without giving compensating features to your group; you may find yourself in a very serious position, and much the position that Professor Neufeld indicated. I cannot understand why you are not prepared to come in under the Bank Act, where you would not only maintain your present position but you would receive some of the advantages that the banks now enjoy.

Mr. STEVENS: The chief thing that I think this perhaps turns on is that there are companies in the trust and loan field which prefer to stay in the mortgage field when they have these added inducements, such as going into consumer finance, and this type of thing. This is the field in which they feel they can best serve the public. They do not have any immediate desire to go into general business or commercial financing, or the general business type of activity in which banks have traditionally specialized. Banks were originally referred to as wholesale bankers who dealt in nothing but a business type of activity. There are trust companies and loan companies who feel they do not wish to enter that segment of the business. In other words, they are willing to leave that segment of the business to the banks, but they do wish to remain competitive in their own field. With reference to your point, I think in practice we may find that there are certain trust and loan companies that would optionally say, "We would prefer to become banks and go in under the system," but what we are saying as a group is that we feel that we should receive assurance that at least the present system under which we have trust and loan companies is not placed in some type of disadvantageous position where they will get back to the position which applied in 1920. That does not mean, if any one of those companies wanted to go the whole circle and become a bank, that there would be anything wrong with giving them that right or opportunity to become a bank. Of course, as you know, our own group felt that there was a place for a new bank in Canada and that is why we asked for the charter.

The CHAIRMAN: What is the range of interest rates in the mortgages that your companies give?

Mr. STEVENS: I cannot be too precise. In our own case we went very heavily into NHA lending. We would have, I think, something like 55 to 60 per cent of our total mortgage portfolio in NHA mortgages. NHA mortgages originally had an interest rate of $6\frac{1}{4}$ per cent, but the current rate is $7\frac{1}{4}$ per cent. Traditionally the conventional rate is approximately one point higher than the NHA rate, therefore at the present time money is available somewhere in that 8 per cent range for a conventional loan and NHA is lending at $7\frac{1}{4}$ per cent.

The VICE-CHAIRMAN: One of the criticisms which the banks make is that you attract deposits because the interest rates which you pay on your deposit accounts are much higher than the bank rate. You are now going to find that the banks in the conventional mortgage field will probably charge between 8 and $8\frac{1}{2}$ per cent on the conventional mortgages. Do you think this will directly affect your ability to attract deposits?

Mr. STEVENS: I do not know whether this will affect us directly but I think possibly it will indirectly, in that the banks have a higher gross income, which presumably they could use in part to pass on to attract more deposits. I think there was testimony given before you which indicated that through the mechanism of free balances or service charges, or in other ways, the banks are charging well in the 7 to 8 per cent range at the present time on loans that otherwise would be looked upon as straight commercial loans and where traditionally they charged 6 per cent. In the consumer finance field I think the rate they are charging is somewhere between 9 and 11 per cent. I think they are, in fact, certainly earning, more than a 6 per cent rate. I think the average return in gross figures earned by the banks now is just a whisker over 6 per cent.

Mr. More (*Regina City*): Mr. Chairman, I want to ask Mr. Stevens if the companies he represents are all members of the Trust Companies Association.

Mr. Stevens: I believe we are in the happiest position of all in that we have one company that is a member of the trust association as a full voting member. The trust association admits companies as non-voting members and we have one company with that status. We have a third company that is not in the association. Therefore, we have one company that is a full voting member of the association, one company that is a member of the association but is a non-voting member, and a third company that is not in the association.

Mr. More (*Regina City*): Amongst these 12 companies?

Mr. Stevens: I am sorry. I am referring to our own companies.

Mr. More (*Regina City*): I was going to raise that. I thought you were just referring to your own operations.

Mr. Stevens: Yes. I think I would have to call on our people. Alberta Fidelity is not a member. Central Ontario is not a member. City Savings is not a member. District Trust is not a member. Fort Garry Trust is a member. Hamilton Trust is a member. Kent Trust is a member. Lincoln Trust is a member. Metropolitan is a member. Northland is a member. Rideau Trust is a non-voting member. Most of the newer companies, while they are members they are non-voting members. York Trust is a member.

Mr. More (*Regina City*): I raise this point because I understand that at one time this association expressed no wish to present any evidence or to appear, and now I understand they are presenting a brief. I wondered if your action was as a result of their first decision that they were not going to appear or make any representations?

Mr. Stevens: I do not think we would be that presumptuous, but I think it does indicate that there is certainly no combine among the trust companies.

Mr. More (*Regina City*): And that there is also a difference in operations amongst the various trust companies?

Mr. Stevens: Yes, there is a great difference in the rates we pay on money in the general operation of trust companies as such.

Mr. More (*Regina City*): Is there much interlocking directorship involved amongst these 12 companies that you represent in this brief?

Mr. Stevens: I would not think so. There is very little. There are three companies in our own group and even there I do not think there would be overlapping directorships in more than one or two instances.

Mr. More (*Regina City*): It is not extensive enough to cause an association of interest to develop among them?

Mr. Stevens: As a group, definitely not.

Mr. More (*Regina City*): I wanted to carry on a little further with the statement you made regarding the banks being given wider powers, how quickly they move and the effect on your associations, particularly with regard to N.H.A. loans. Did the entry of the banks into that field, and the statement that they controlled 60 per cent of the N.H.A. loans made by conventional lenders at that time, indicate that there was a static field from which they were able, under the

same rules, to take that volume of business from you as a competitor, or did it in fact not mean a greater volume of business for the benefit of the people who wanted N.H.A. loans?

Mr. STEVENS: I do not know that I can answer that precisely other than to repeat what I said this morning, that it is a question of so much money being available and who will have the right or the responsibility of administering where that money goes. In other words, when the banks go into the mortgage field they do not automatically have money available to put into the mortgage field; they have to pull it out of some other section. In reply to the point you are raising, I can only say that the banks pushed into that field to the extent that you have indicated, through their own choosing. I cannot tell you what happened to the other companies who you ordinarily would have expected would fill that field.

Mr. MORE (*Regina City*): I think you indicated in your portfolio there was some 55 per cent in N.H.A. loans. Was it any less during the period the banks operated in the N.H.A. field?

Mr. STEVENS: We came after that period.

Mr. MORE (*Regina City*): You came after that period, so there is no relationship there.

Mr. STEVENS: No. I am merely relating what some of the companies that were active in the field have told us.

Mr. MORE (*Regina City*): Is it not a fact that since the banks had to withdraw from this field because of the limitation on their interest rate that there has been a dearth of funds under N.H.A. from conventional borrowers in many localities in Canada? Has there not been a lot of complaint about this?

Mr. STEVENS: I do not know if that is related only to the fact that banks would choose to withdraw from the field. Technically they can still stay in the field, but they have not done so. I think there are other things that come to bear on that. It is more a question of the market place, and the feeling of some institutions that they would prefer to go into conventional lending as opposed to N.H.A. lending.

Mr. MORE (*Regina City*): There was also a withdrawal by the conventional lenders in the amount of money they made available for N.H.A. loaning purposes, I take it, and this has brought about the tightness in that field that we get complaints about?

Mr. STEVENS: You mean the current tightness?

Mr. MORE (*Regina City*): Yes.

Mr. STEVENS: Oh, no, I think it is fair to say that the current tightness is definitely a world-wide tightness of money. It is nothing which is specifically related to N.H.A. mortgage lending or conventional lending, it is just the general world-wide tightness that is especially being felt in the United States and in Canada.

Mr. MORE (*Regina City*): That tightness expressed itself in the withdrawal of the banks from the N.H.A. field because of their loaning rates, their restriction on the rate of interest.

Mr. STEVENS: No, not only in the N.H.A. field but also in the conventional field.

Mr. MORE (*Regina City*): Does the present 7¼ per cent bring an increased flow of funds into the N.H.A. field from sources like yourselves?

Mr. STEVENS: Perhaps some of my associates could comment on that, but my general impression is that I do not think that anybody today, even with the 7¼ per cent, has rushed into the field with large amounts of funds available. I agree it seems to be very attractive, but money is relatively tight.

Mr. MORE (*Regina City*): Yes. In connection with clearing house operations, do you have to keep accounts with the banks in this regard? Do you borrow money from the banks at any time?

Mr. STEVENS: We would like to but—

Mr. MORE (*Regina City*): You do not. Do any of your operations borrow money from the banks?

Mr. STEVENS: Yes.

Mr. MORE (*Regina City*): Do you have to keep a compensating balance when you do this?

Mr. STEVENS: I do not know whether we can speak generally on that. I know in our own instance it has certainly been requested from time to time that we keep compensating balances. I do not think—and again I would have to call on the other companies in the association—there is any extensive loaning. Certainly there is no extensive loaning from the banks to any of our companies.

Mr. MORE (*Regina City*): When you do borrow they request a compensating balance?

Mr. STEVENS: Automatically, I think, they would almost always have it because out of necessity, in having to keep an account with the bank, you keep pretty heavy cash balances there, so anything that you borrow in all likelihood would be at least partly compensated for through other deposits that you hold with them in other accounts.

Mr. LAMBERT: You made a point, Mr. Stevens, about asking for more frequent Bank Act revisions. Now, other than the statement that you have made I have not seen the reasoning behind this. What advantages do you feel would be gained by having the operating charters of the banks, revised more frequently? Would your trust company like to have its charter revised by others—not yourself nor your own solicitors—or your memorandum of association and your articles, or whatever you file with the Provincial Secretary of the province of Ontario or with the Alberta Fidelity Trust in the province of Alberta?

Mr. STEVENS: In fact, this is exactly what happens. For example, let us take the Ontario situation. We are chartered under the Ontario Loan and Trust Corporations Act. As far as our charter is concerned we get letters patent but the powers come from the Loan and Trust Corporations Act. That act is amended—if not annually, certainly from time to time—at the will of the Ontario legislature, and any change or amendment that they wish to put in that act is automatically applied to us. Last year, for instance, they amended the act quite extensively, and this year I think they intend to do it again in your own province. There

have been several amendments to the Trust Act, which applies to trust companies in that province, and in that way the jurisdiction which has power over the loan and trust corporations is doing exactly what we are suggesting should be done by the parliament of Canada in relation to the Bank Act.

In other words, if there is anything that parliament feels they wish to pass on in the sense of revising the Bank Act, the traditional feeling—and this is all I understand it is—that it would not be done other than in these 10 year intervals does not have to be followed. The type of thing we mean, for example, is where the banks say they feel the 6 per cent ceiling means that they cannot make an NHA loan if it goes beyond the 6 per cent level. In other words, they perhaps do not have the power to make a 6¼ per cent NHA loan because of the 6 per cent ceiling. Well, parliament could have acted on that and amended the Bank Act to make it clear that in the case of NHA mortgages the 6 per cent ceiling did not apply.

Mr. LAMBERT: That could have happened at any time.

Mr. STEVENS: That is right.

Mr. LAMBERT: That is a matter of government policy in not wanting to amend one section in the light of the Porter Commission Report. I think you will agree that that is probably the reason why the individual amendment was not made. There is nothing that prevents the Bank Act from being amended in part at any time, but the basic difference is, of course, that there is no separate document, there is no separate, shall we say, letters patent, or what have you, at all with regard to a bank. The Bank Act is the whole structure of a bank, whereas your company can exist subject to certain conditions set out in the Loan and Trust Corporations Act. It has a separate corporate entity, but unless the chartered banks appear in Schedule A they have no corporate entity.

Mr. STEVENS: Certainly I would not anticipate that parliament would arbitrarily amend Schedule A. What we are referring to is the fact that the provisions within the Bank Act could be amended or revised more frequently by parliament than the 10 year intervals which have become traditional.

Mr. LAMBERT: I am going to refer to a situation that developed on Tuesday, when it was alleged by the National City Bank people that they were advised on July 18, 1963 that their charter—being their appearance in Schedule A of the Bank Act—might not be renewed. In other words, the whole thing would have gone down the drain, there would be no more corporate structure, nothing. Now this does not happen with regard to any of your trust companies because you already have your letters patent. You do not get your continuing corporate life from the provisions of the Loan and Trust Corporations Act. I will admit, there is a licence.

Mr. STEVENS: That is a one year licence which, if it is not renewed each year—

Mr. LAMBERT: But that is not a revision of the Bank Act.

Mr. STEVENS: No, but—and this is the point I am making, Mr. Lambert—as far as the trust companies are concerned they are given a charter but, really, the charter is of very little worth to you if you are not able to keep your licence alive. Technically the banks come into being as a result of the Bank Act, and in effect the Bank Act not only creates them, it licenses them.

Mr. LAMBERT: Frankly, up to this moment you have not shown me any clear reason for the change from ten years to five. Is it to be more flexible?

Mr. STEVENS: That is right.

Mr. LAMBERT: Why should the whole act be revised?

Mr. STEVENS: Oh no—

Mr. LAMBERT: After all, a revision is a rather mighty gestation, you know, and it has certain convulsions. I do not know whether the body can stand that.

Mr. STEVENS: Well, perhaps the word "revision" is an unhappy word in that I do not think we contemplated a revision in the sense that there necessarily needed to be a complete overhaul of the Bank Act, but that quite readily there would be an amendment of the Bank Act—and the banks would not be surprised if it was made—with respect to any aspect that parliament felt needed to be clarified in the banking system in Canada.

One of the things we are saying is that if, in rewriting the Bank Act, some imbalance appears in two years, for instance, where the banks seem to be getting an unfair advantage over other sections of the financial community, I think parliament should feel quite free to amend the Bank Act in whatever way they feel is required in order to curb, if you like, the imbalance that has been created through the revision of the Bank Act.

Mr. LAMBERT: That is a horse of a different colour, to scramble my metaphors, but your brief says that the custom of revising the Bank Act every 10 years should be changed in favour of more frequent revisions. You have since modified that and I think the position you have now taken is much more reasonable.

Mr. STEVENS: That is right.

Mr. LAMBERT: That is all I have, Mr. Chairman.

Mr. STEVENS: For example, there was confusion over this question of the interest rate ceiling. For instance, on consumer loans could the banks charge a 6 per cent rate on an add-on basis? They received certain legal opinions, as I understand it, to the effect that this was all right. This is something that perhaps parliament, if they had chosen, could have amended in order to clarify whether the 6 per cent ceiling meant one thing or another.

All we are suggesting is that by revising the present Bank Act we feel there inadvertently could be imbalances created, and if it is accepted that there will not be another revision for 10 years—that may be an unfortunate 10 years —there will be a lessening of competition during that period.

Mr. LAMBERT: All right, that is fine. I will leave it at that. I will have more questions on this general section but I will yield as we are on another subject.

The VICE-CHAIRMAN: Are there any other members who want to ask questions on this general section?

Mr. LAMBERT: I said on the general section, but if I may continue. I was prepared to yield to anybody else who wanted to—

The VICE-CHAIRMAN: There is no one else.

Mr. LAMBERT: May I continue then, Mr. Chairman.

In the first paragraph on page 3 you say:

> Rather, their "competitive" response has been to ask Parliament for wider powers which, if granted in isolation, will enhance their already dominant position.

May I ask how could banks become more competitive unless they are given these particular powers that they are seeking?

Mr. STEVENS: I am sorry, I missed the point of your question.

Mr. LAMBERT: I am referring to the last sentence in the first paragraph on page 3, and this is my question. Unless the banks, which have already moved into every aspect of what is given to them under their charters, get these wider powers, how can they be more competitive?

Mr. STEVENS: This is a very general subject and it is something that I think the Porter Commission Report again touches on in that they point out that it is rather—to use their language—disappointing that the banks have not responded to some different types of competition such as longer hours or a drive-in facility, this type of thing.

Mr. LAMBERT: Bonus turkeys?

Mr. STEVENS: Perhaps.

Mr. LAMBERT: Toasters?

Mr. STEVENS: The banks have not responded in the way they perhaps could have and, as we mention in our brief, in effect the banks, especially in recent times, have been responding through the creation of new types of instruments. I know some of the banks brought out an instrument which they claimed, through a certain accumulative calculation of interest, yielded you 5.55 per cent. I think the simple interest on it was 4.85 per cent. It is the selling of that type of competitive instrument which over-all is probably a good thing in the market place. In other words, they are competing for money by creating new instruments which they think will be more saleable to the public.

Mr. LAMBERT: I will admit that in so far as hours of banking are concerned there might have been some changes, but as to the days on which the banks had to be open, of course they were caught by the Bills of Exchange Act. Did you know this?

Mr. STEVENS: Yes, to a degree. It is like the type of thing that I could only make reference to. For example, I do not know if you have ever seen a bank advertisement on a TV program.

Mr. LAMBERT: No.

Mr. STEVENS: I think you should ask yourself why.

Mr. LAMBERT: Spare us, oh Lord, from advertising on TV!

Mr. STEVENS: But this is the type of competition we need, in that it is—

Mr. MORE: You want them to raise their costs of operation, which does not seem necessary is that it?

Mr. LAMBERT: No. But you understand what I was getting at, Mr. Stevens. If you are really going to be more competitive in the wider sense, for instance, of

being able to go into the medium range financing field or to lend on chattel mortages, that sort of thing of course amendments would have to made to the Bank Act.

I have a further question on that page. This is the last sentence of the third paragraph, which refers to the close affiliation of the banks with certain of the larger trust or loan companies. There has been a fair amount of—and I will put it in quotation marks—"loose talk" about this owning or affiliation. What evidence do you have of this as between the banks and the larger trust and loan companies outside of possibly some overlapping of directors?

Mr. STEVENS: There are some people with us today, I think, who could give much more direct evidence on this point.

Mr. LAMBERT: It is your brief.

Mr. STEVENS: However, I would comment—

Mr. GILBERT: All he wants to do is call more expert witnesses.

Mr. STEVENS: I think you are quite proper in saying other than certain interlocking directorships. For example, I think the Bank of Montreal and the Royal Trust have 14 common directors. If you stand on St. James Street in Montreal I think it is rather interesting to note that as you face the building on the left hand side you see what is called the Bank of Montreal; on the right hand side you see a tower called the Royal Trust. They are joined with corridors and have certain common facilities. I think you can assume that they are reasonably close. If you go into the Bank of Montreal and some type of trust business is involved in your dealings, it certainly is not uncommon to have the suggestion made that the Royal Trust be retained to handle that kind of business. I have first hand knowledge of that.

Mr. LAMBERT: It is not an example that is not being followed, though, is it?

Mr. STEVENS: It usually is followed.

Mr. LAMBERT: It may be within the case of the Bank of Western Canada, your connections having a close appearance to the Fort Garry Trust Company, and I am sure we are going to see it in the Alberta Fidelity Trust Company in Alberta, not that I object—

Mr. STEVENS: No, but you are asking for evidence and I am trying to give you evidence. There are certain lines of credit or deposit facilities available between these companies, and about which the gentlemen present could give you very much more detail, which certainly have been utilized to some extent over the past months between the banks and the trust companies to which I am referring.

If you refer to the *Financial Post* on this particular subject, for example the comment under the Bank of Nova Scotia heading you will find that that bank is part of a group which acquired a substantial share interest in Eastern & Chartered Trust Company, and I do not think it is any secret that they are extremely close to that company.

Mr. MORE: Mr. Stevens, in your own case, you are not worried that because of your support of this brief the shareholders of the Bank of Western Canada at their next annual meeting will kick you out?

Mr. STEVENS: I hope not.

Mr. MORE: That is a pretty close relationship, too, I would say.

Mr. LAMBERT: You say in the first paragraph on page 5, the last sentence —actually this is the whole purpose of the paragraph—the following:

> If the Bank Act is amended as proposed, without concurrent action to improve the position of other "banking" institutions, we believe such an imbalance will occur and the concentration in our system will increase and competition will lessen.

Would the other banking institutions be prepared to accept the regulations, and so forth, which exist under the Bank Act?

Mr. STEVENS: In answer to Mr. Cameron's point on what I think was a similar question, our attitude as a group is that whatever regulations are necessitated through the granting of these additional advantages to our type of company, we are more than willing to accept those regulations. When it comes to the question of whether we actually want to become banks, I think certain of the trust and loan companies would say they would prefer, provided they feel they can remain competitive in their field, to remain in the field they are in and not become banks. In other words, they do not want to go into general business loaning or commercial loaning or the wholesale type of banking activity, but they want to remain what I suppose is called in the United States savings banks, where they remain active. In Montreal for example, there is the City and District Savings Bank. That type of activity.

In other words, I think there is room in Canada for different types of institutions—without everything being a bank—provided these other institutions are not put in the position where, because of legislative action, they really have no room to compete; their competitive position is lessened to such an extent that they cannot compete with the other institutions. In mentioning this perhaps I should underline that when we speak about getting an advantage, such as the advantage of being able to make personal or unsecured loans, we are talking about the personal loan to the run of the mill customer who wants to buy a car and to whom you want to make a $2,000 loan. At the present time the banks can make those loans, and quite rightly. We are saying that this is a great service, I think, to the public the fact that the banks are able to make these personal loans to people in that category. Likewise, the trust and loan companies should have the privilege of making that type of loan to a similar customer, rather than having the customer go to a bank to pick up the loan, which immediately puts us at a competitive disadvantage in relation to the banks. Now, in saying that we are drawing a clear distinction between that type of loan, which probably would be no higher than, say, $5,000 to any individual person, and general commercial loaning in connection with business activity, factory activity, financing of receivables, or things of that type.

Mr. LAMBERT: What about the reverse side of the coin? There has been the suggestion that if trust and loan companies were allowed to go into the consumer lending field, what about the banks being allowed to go into the fiduciary business?

Mr. STEVENS: I think they should speak for themselves.

Mr. LAMBERT: No, I mean this has been put forward as a *quid pro quo*. This might affect some of the trust companies rather seriously as well when we consider, shall we say, the strong power base from which the banks would start.

Mr. STEVENS: I thing the point is certainly well noted.

Mr. LAMBERT: That is fine.

The CHAIRMAN: I understand Mr. Laflamme has to leave at 5 o'clock and I wonder if the other members of the Committee would accord him a few moments to ask one or two questions now?

Mr. LAFLAMME: My name was on the list, but when I was chairing the meeting I could not ask questions.

Mr. Stevens, surely you must agree that within our financial system the central bank, which is the Bank of Canada, must control credit. Do you agree with that.

Mr. STEVENS: Yes.

Mr. LAFLAMME: Everywhere in your brief when you present your arguments you speak about competition. You want more competition between the financial institutions. How can you reconcile the fact that the Bank of Canada must control credit with the fact that while you call yourselves banking institutions and you want the powers that the banks have, most of the trust companies do not want to become banks? You want some additional powers on the grounds that you would like more competition with the banks. I am just trying to reconcile those arguments because to my mind they seem to be contradictory to the main principle that the central bank must control credit.

Mr. STEVENS: No. I believe a somewhat similar question was raised when the Governor of the Bank of Canada was before you, and he said that he felt under the present set-up there was no problem in controlling credit because the banks have a relationship to the other, if you like, banking institutions.

What we are saying is that we do not want to be put in a more competitive position with the banks. We are saying that the banks are being allowed to become more competitive with us, and unless certain compensating advantages are given to these other institutions the affect will not be that we will be more competitive, but that the banks will become more competitive. We are looking for the equalizer.

Mr. LAFLAMME: Yes, but I understood the Governor of the Bank of Canada to say, when he compared the growth figures of your institutions with the growth figures of the banks during the last five years, that he would not worry too much because of the changes that were being put in this bill that would allow the banks to enter into some of the other fields where their organizations could act to curb the growth of the trust companies. I am sure you understand that some of the banks entered into your field by lending moneys to the trust companies during that period.

Mr. STEVENS: This is probably over-simplifying what we are saying, but the financial system as such is almost like a wheel with the Bank of Canada as the hub. At the present time they translate their wishes of a banking nature to the chartered banks, which form the inner circle. The outer circle is where you have these other institutions. Now, the way the Bank of Canada governs the money

supply and credit conditions to which you are referring is through their direct relationship with the chartered banks. Our point is that being on the outer circle, as opposed to the inner circle, parliament has to be very careful in the powers they give at the present time in addition to the chartered bank powers, in that the inner circle could expand very quickly and eliminate or lessen the outer circle because all funds pass through the chartered banks. The situation is that if the people on the outer circle do not have a sufficient competitive advantage to win funds from the chartered banks, you will find there will be less competition in the system. However, this does not affect the Bank of Canada's power at the hub to control the system, as such, as they have been doing.

Mr. LAFLAMME: Yes, but do you not think there are a many ways of attracting clients and attracting deposits, such as lowering the interest rate on loans and by other means? I think the main factor to keep in mind is that it is important for the central bank to control credit. I think everyone wants to have the lowest interest rate possible, and in this way you can compete in this field with the banks.

Mr. STEVENS: This, of course, is one of the advantages of deposit insurance. It will allow companies to compete more effectively for deposits.

Mr. LAFLAMME: Is it your belief that all the trust companies you have mentioned in your brief are interested in taking part in the deposit insurance proposal?

Mr. STEVENS: Oh, very much so. They could not be more enthusiastic.

Mr. LAFLAMME: Thank you.

The CHAIRMAN: Does this mean we have completed our discussion on the preamble? We can now move on to the specific proposals of the witnesses appearing before us today.

First of all, paragraph one—Unsecured Loans and Consumer Credit. Are there any further questions on this proposal?

If not, I will move on to paragraph two, the proposal on Deposit Insurance. I will recognize Mr. Clermont.

(*Translation*)

Mr. CLERMONT: Mr. Stevens, are you aware of Bill C-261 which was introduced in the House on January the 11th 1967, with regard to deposit-insurance? Are you aware of this Bill? Would you care to comment on this bill?

(*English*)

Mr. STEVENS: I think the general comment that we would make is that we welcome the fact that this bill has already been introduced in parliament. In fact, perhaps one of the most important messages that we wish to bring to this Committee is that it is very important that the passage of this bill be expedited as quickly as possible and, if it is at all humanly possible, that the bill should be passed and be effective prior to the revision of the Bank Act. From a general perusal of the proposed bill we feel that it covers the points we would like to see covered in such a deposit insurance set-up. We are referring to the fact that they

not only specifically provide for the automatic insuring of federal companies, but also the insuring of trust and loan companies which are provincially incorporated and in which the provincial jurisdictions are in agreement with respect to those institutions applying for the insurance. We think this is good, in that as many institutions as possible in Canada should be covered with this type of deposit insurance. The rate, one-thirtieth of one per cent, would appear to be satisfactory. I think the fact they have indicated that the rate may be lowered is interesting. In other words, the starting rate is one-thirtieth of one per cent, but if experience proves that that is to high, they mention that it could be lower. The method of setting up the institution, its relationship with the Inspector General of Banks and the Superintendent of Insurance I think is a workable and good arrangement. I think the fact that they are insuring deposits up to $20,000 is very satisfactory.

Mr. CLERMONT: You are satisfied with the limit of $20,000?

Mr. STEVENS: That is right. Generally speaking, as I think I mentioned in the early part of your hearings, we are very encouraged that there has been as much progress in connection with the Canada deposit insurance corporation act as has been made, and we would just urge that no effort be spared to get the act passed and in force as soon as possible.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, my next question also has to do with No. 3 on Page 7. The Brief mentioned that the short-term loans could or should be made either by the Bank of Canada or the corporation appointed for deposit insurance. If this is the case, in connection with the Deposit Insurance Corporation, do you think the initial capital of $10 million would be sufficient to make short-term loans to trust companies or others?

(*English*)

Mr. STEVENS: I believe on that point that there is provision where the Minister of Finance can loan additional funds to the corporation, and I would anticipate that what they have in mind there is if the corporation did need funds of that size that they would be made available. So I would not read the $10 million as anything more than a nominal capital for the corporation to work with but additional funds are available. I think under clause 11 they make it quite clear that the corporation will have the power to acquire assets from a member institution or make loans or advances to the member institution. This is very similar to the procedure that the chartered banks now enjoy with the Bank of Canada. In the Bank of Canada statistics, which I think Mr. Lind had, it is shown on a weekly basis just how much the Canadian banks borrow from the Bank of Canada and how much they get into the sale and buy back of assets in relation to the Bank of Canada. Those coming under this will have a similar type of relationship as the banks now enjoy with the Bank of Canada. This, of course, is what we were hoping for under item 3 in our brief which you are referring to.

Mr. CLERMONT: Thank you, Mr. Chairman.

The CHAIRMAN: Now, who would like to ask further questions on this issue of deposit insurance.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Deposit insurance, no. That has come out of the matter I was going to ask, namely the fact that they have in effect a lender of last resort.

Mr. LAMBERT: Mr. Stevens, I was wondering if it was going to be just as flexible as that. It seemed to me that the loaning provisions under Bill No. C-261 were more in the nature of lender of last resort, and not, shall we say, under the present Bank of Canada Act whereby the banks can, from time to time, make srort term borrowings. Under the deposit insurance corporation act these are lenders of last resort with interest rates as high as 10 per cent, and with some rather stringent penalties involved.

I have a number of questions and I think perhaps if you will check into it a little closer you may find that I maybe a little closer to it in that version. You will notice in the bill there are not any powers granted unless they are granted by regulations which will be drawn up, and incidentally that is going to be almost another new bill when it comes up. The merger or sale provisions of the FDIC in the United States apply in this way. If an institution gets into trouble and does go to the deposit insurance corporation for a loan of last resort, and yet its management still does not appear to be able to cope with the situation, the corporation is then able to step in and forcibly bring about a merger with some willing purchaser, or actually sell the assets of the institution involved. These powers are not spelled out in this legislation.

I made representations in regard to this the other day when we were discussing this bill on second reading. It will be instructive to see what is the minister's reply in this regard. But, I am asking you on behalf of your associates whether this would not be, shall we say, a good feature in this type of bill because at the present time I do not see what the deposit insurance corporation is going to do after it has made a loan to an applicant and there is default in repayment of the loan; or, the management says: "All right, here it is; it is yours, do with it what you want". Do you feel that such features should be part of such an act?

Mr. STEVENS: As you say, Mr. Lambert, you are probably very much closer to the contemplative workings of this deposit system than I would be. As far as the American system is concerned, I think it is just as much removed from a lender of last resort, facility which is available with respect to liquidity, to those institutions that are insured—savings and loan or banking institutions—and I think it would be unfortunate if this legislation made the loaning provision or the acquisition of asset provision a lender of last resort, or a last resort provision with penalty type of clauses. I do not really think this is the most workable system.

There are two advantages, as I see it, to deposit insurance. The one is that there is complete assurance that a person with up to $20,000 will not lose any deposit he has placed in one of these institutions. I think that is certainly the paramount thing; it is security. But the second thing, in order to give security, is supervision. It is written right into the legislation that there must be proper supervision and I think, perhaps, in practice this is the strongest thing in the system, in that there is a fund created out of this 1/30 of 1 per cent that would certainly be sufficient to ensure that there can be very much tighter scrutiny and

supervision of all institutions, including the banks, than there has been up to the present time. I think this is good that in practice there will be a minimum of problems such as you are referring to in that with proper supervision these problems should not occur. There should never be a situation—I cannot say there should never be; in fact there may be—there should never be a situation where there would be an actual default. In fact, I think under the American system, since it was brought into being in January 1954, there has been less than $42 million actually paid out in claims.

Mr. LAMBERT: Yes, I understand that, under the insurance. But what I am speaking of is under the lender of last resort feature of the legislation. This is what I am dealing with. I am not dealing here with the insurance of deposits. I am talking about the lender of last resort. In other words, when the situation is really serious and rather than have an institution close its doors there are facilities for it to go to, to get a loan to keep the thing going. The words are serious: "lender of last resort". The alternative to this is closing the door.

Mr. STEVENS: Well, I would think it would be very rare, if this insurance comes into being, that there would ever be the closing of the door of any institution. In practice, I think, what would happen would be that a merger would be arranged, or some other arrangement would develop, to ensure that that situation actually would not happen.

Mr. LAMBERT: Yes, there are undoubtedly situations where you may say that the other members in an association, rather than having one of their members go to the wall, would say: "Well for the good of the whole system we will arrange a merger". But, this is not always possible, and it is too late, when you have not got it in the act, if you are faced with this.

Mr. STEVENS: As you indicated, I would presume in these regulations they are going to cover this. I know they cover it in the American system.

Mr. LAMBERT: Yes. It is my understanding, although it is not spelled out in the legislation, that the standards that will be applied under the federal deposit insurance legislation, in so far as investments and so forth are concerned, will be at least those of the federal Trust Companies Act. It is obvious that the investment mix of a great number of the provincially incorporated institutions that do not now come under federal supervision is not up to the standards of the Trust Companies Act, and as required by the Superintendent of Insurance. I made representations the other day that there should be a period of adjustment permitted to an applicant to bring that institution's investment mix or portfolio up to the standards of the Trust Companies Act. But, that in the interval it have an interim certificate so you do not have to say, spend five years out in the wilderness qualifying yourself. You are able then to afford, by paying the premium and undergoing the supervision, to say: "We are a member of the Canadian Deposit Insurance Corporation" and yet you are given three to five years to bring your investments up to the standards in order to avoid, shall we say, a fire sale of present investments. Now, how does this strike your people or you?

Mr. STEVENS: Again, I have to emphasize I do not think as a group we have discussed this precisely, but I think your point is a very valid one that in so far as most of the trust companies are concerned, I would think this is very, very

high, say 90 per cent of them or whatever the average you would like to take, I do not think you will find in practice there will be any problem with regard to satisfying federal authorities that these are suitable institutions to be insured under this legislation. Certainly the Ontario companies, for example, would have an act governing them that is every bit as severe as, as perhaps much more severe than, the federal act with respect to their activities.

Mr. LAMBERT: Savings supervisions?

Mr. STEVENS: I would say that as far as the supervision is concerned and the requirements of the act, I think it is reasonably severe and good in Ontario. Now granted there are ten provinces but the situation in each of these provinces, I do not know. You are undoubtedly much more familiar with that than I am. But I would say, very generally speaking, that I do not think there would be the problem here that others might feel there is. I quite agree with you that if there was a situation where some companies did not seem to meet the standard there should be some kind of limbo period where at least they can have the benefit of insurance on some basis rather than leave them in the situation where, perhaps, they need insurance more than any institution and yet for technical reasons cannot get it.

Mr. LAMBERT: You are connected with a trust company incorporated under the Alberta Trust Companies Act. It is my information—perhaps you can set me right if I am wrong—that at the present time that act required only that the first million dollars of investment of a trust company operation out there shall be subject to supervision and that the remainder is at your choice.

Mr. STEVENS: I am not a director of the company you are referring to, the Alberta Fidelity Trust, although we do own a share interest in that company. As far as the Alberta situation is concerned it would come as a great surprise to me if the Alberta act was what you say. Certainly, in any discussions I have ever had with the Alberta Fidelity people they feel the act as it presently stands—it was recently amended—is a relatively severe act and is in many ways very similar to the Ontario act. It would surprise me if that is the situation, but on a first hand basis I cannot answer your question.

Mr. LAMBERT: Well, my information is from one of the Alberta trust companies who is the most active in the field. They feel themselves it is a very dangerous situation. Now, I am subject to correction but if that is so, all it means is that you can put up a million dollars and then if your investment portfolio is $10 million have $9 million of garbage.

Mr. STEVENS: I would say very, very quickly, from what I know from the people who I have spoken to and our company there that that is not the situation. I think there is a misunderstanding there.

Mr. LAMBERT: All right, fine; thank you Mr. Chairman.

The CHAIRMAN: Are there any further questions on deposit insurance? Before we pass on to the next topic I wonder if I could ask you Mr. Stevens what are your views with respect to the provision, as I recall, that for a provincially chartered institution to be eligible for the proposed federal deposit insurance scheme they must have the concurrence of the provincial authority? If this is not something on which your group feels it can express a view I will understand but

I was wondering whether or not your group might have a view with respect to a situation on which the provincial authority—to take the most simple—does not act in one direction or another when provincially chartered institutions would like to come under the scheme?

Mr. STEVENS: Perhaps, Mr. Chairman, I could answer it in this way. In our own province—here I am referring to the province of Ontario—in which most of these companies are situated, this question was raised. We approached the responsible ministers in the Ontario situation and said: "We hoped that if a federal system of deposit insurance was instituted they would co-operate in every way to ensure that provincial institutions could become part of that federal system without any delay". We were assured at every level that every co-operation would be given on the part of the province of Ontario.

Mr. MORE (*Regina City*): Have you had such assurance from Manitoba? You have interests in a company there and I presume you would make the same inquiry?

Mr. STEVENS: I have not actually asked anybody there but I would hope they would. Now, the fact that the Manitoba companies are federally supervised, I think, would make it comparatively easy to shift over to this deposit insurance, as the federal people already have the facts on any Manitoba company. I would say that I certainly have no indication from the Manitoba people that they would not co-operate; but, I personally have not specifically spoken with the Manitoba ministers on that subject.

Mr. MORE (*Regina City*) As far as Ontario is concerned, would their present legislation, under which you are incorporated, bar you from entering the federal deposit plan, if they took no action?

The CHAIRMAN: I think the problem, as I posed it, Mr. More, as I recall—I do not have the bill in front of me—the draft federal act requires the consent of the provincial authority.

Mr. MORE (*Regina City*): Yes, it is part of the act.

Mr. STEVENS: In other words, I think the barring, Mr. More—

Mr. MORE (*Regina City*): Is done in the act.

Mr. STEVENS: —is more on the federal side.

Mr. MORE (*Regina City*): Yes.

Mr. STEVENS: They say you cannot apply for the insurance unless your own province agrees.

Mr. MORE (*Regina City*): That is right.

Mr. STEVENS: But, I do not think there is anything in the Trust and Loan Companies Act of Ontario that says you could not.

Mr. CHAIRMAN: My question was to find out whether your group had a view or if someone individually had a view on whether it would be more desirable if the scheme did not call for the consent of the provincial authority? But you may not be in a position to comment on this and I will not insist as I realize you are expressing a collective opinion. I am putting it at the simplest level, one on which the province takes no stand. There is a more complex problem if they say no.

Mr. STEVENS: I think you probably know my hesitation on this point. I think I would perhaps answer it more correctly by saying that we feel deposit insurance is a very valuable thing and is something that the public deserves and are entitled to with respect to all institutions which are deposit taking institutions.

The CHAIRMAN: Are there any further questions on the proposals under deposit insurance? It not, we will turn to topic three, Bank of Canada or other resource. I believe Mr. Cameron has already signified that he wishes to pursue this topic.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think, Mr. Chairman, you are satisfied with the provisions under the deposit insurance bill, are you? That covers your question of access to lender of last resort?

Mr. STEVENS: Well, subject to any doubts that Mr. Lambert has seeded in my mind, I felt that the reference to it in the legislation was what we had in mind. Now, I would hope that it would not be treated as a lender of last resort facility in the sense that he is referring to in the CMHC sense, but that it would be treated more as the same facility which is afforded to the chartered banks at the present time and which is used very frequently by the chartered banks in their dealings with the Bank of Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Otherwise you would want to stick to your original idea of direct access to the Bank of Canada?

Mr. STEVENS: We feel that companies such as our should have access to the same type of facility that the banks presently enjoy. Now, whether it is from the Bank of Canada or from a corporation such as is contemplated in this deposit legislation, as long as it is there, we feel it is needed in order to ensure liquidity.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do you think you can divorce that from the other aspect of the relationship between the chartered banks and the central bank?

Mr. STEVENS: They have in the United States.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am not familiar with the situation there.

The CHAIRMAN: I think you may be referring to the federal home loan bank scheme which we had some allusion to?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is more similar, I gather, to the provisions under the deposit insurance act, is it not?

Mr. STEVENS: That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I doubt whether an institution such as yours would have access to the federal reserves system, lender of last resort provision.

Mr. STEVENS: You mean the home bank?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. STEVENS: Well, an institution such as ours would probably be classified as either a savings bank or a savings and loan type of institution and as such they would have resort facilities. For example, the savings and loan institutions

in the United States, certainly in the state of California, have tremendous facilities available to them which they utilize from time to time to a great extent. It is this type of facility that would be very valuable with respect to our type of institution in Canada. We would hope the facility which is indicated in the CDIC would be that type of facility.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think that is all I have to ask on this question.

Mr. CLERMONT: I think Mr. Stevens mentioned that short term loans are often used by the bank? Is this with the Bank of Canada? I have here what they call a statistical summary and judging from the last column on page one, it does not seem to be used very often.

Mr. STEVENS: Which statistics have you?

Mr. CLERMONT: January 1967.

Mr. STEVENS: Oh, you are one month ahead of me.

Mr. CLERMONT: If I look to the last column for 1965-66, I see a dot but no amount.

Mr. STEVENS: I have the December one here and the column that it shows under is on the lefthand side under "Canada" and it shows outstanding advances to chartered and savings banks, which is the first column, but the more significant column is the next one, "purchase and re-sale agreements."

Mr. CLERMONT: I have on page one, the last column on my right, "advances charter and savings banks" and dash, dash, dash, dash, dash.

The CHAIRMAN: Do we have another copy of the January one? Mr. Clermont we have an extra seat up here, you sit down up here.

Mr. CLERMONT: I prefer to ask the questions.

The CHAIRMAN: We only have a limited number of copies. Now, you are referring to what?

Mr. CLERMONT: The reason for my question, Mr. Chairman, is that I wanted to find out if I misunderstood Mr. Stevens when he mentioned the banks often use short term loans. I do not know if it is the case because I am not familiar with it. But if I refer to this report it does not seem that this facility is often used.

Mr. STEVENS: Now, as I read the column you are referring to, this is an actual loan or advance to one or more chartered banks at the particular week in reference. Now, it rarely happens, the banks may borrow for a very limited period and then back out again. But the point you are referring to is that on September 14, for example, $3 million was advanced to some bank or banks.

Mr. CLERMONT: Again, Mr. Stevens, I am not saying you are wrong or right; I am asking the question for more information.

Mr. STEVENS: As I understand it, you mention there is a dot opposite January 14, 1967. That would mean at that date there was no loan or advance from the Bank of Canada to a chartered bank or a savings bank. But if you look up the column you will see the dates when there were loans and advances.

Mr. CLERMONT: But as the law exists now I do not see how trust companies can get loans from the Bank of Canada.

Mr. STEVENS: I am sorry.

Mr. CLERMONT: Have you some explanation that the Bank of Canada should be or may be in a position to make short term loans to trust companies. How they do it? Bill C-190 will have to be amended for sure because I do not think the Bank of Canada, even under Bill C-190, could be authorized to make short term loans to trust companies or loan companies, and so on?

Mr. STEVENS: I think this comes back to the point Mr. Cameron was making in that he said, as I understood it, under our item three we say there should be some type of recourse similar to what the banks have to the Bank of Canada, or to the Deposit Insurance Corporation. What we are saying is that if the resource is provided under the CDIC act as is contemplated in your draft bill. This is what we have in mind. It does not necessarily have to come from the Bank of Canada.

The CHAIRMAN: If there are no further questions on this topic we will move on to the next one.

Mr. MORE (*Regina City*): I would just like to ask one question in this regard. Mr. Stevens, perhaps this then leads up to the federal requirement of provincial approval, in that if you are going to have this resort open to you as a provincially incorportaed company, then it must be with provincial approval and the province would have to take the responsibility. There might be a relationship in these two clauses on that basis.

Mr. STEVENS: Yes. I am not sure of what the jurisdictional problems would be there.

The CHAIRMAN: I suggest that if we have no further questions on this topic we move on to topic No. 4, the clearance system. Do you have any further questions on this?

Mr. CLERMONT: This brief mentions that perhaps the clearing system might be operated through the facilities of the Bank of Canada; and to Mr. Rasminsky, in reply to a question, said that as the Bank of Canada has no such facility he did not visualize that it could be organized except at a great cost. Perhaps the word "cost" is not a good word to use—

Mr. STEVENS: What we were attempting to indicate in our item 4 is that we feel the clearing system as it is presently constituted, which excludes companies like ours, should be at least re-constituted, if you like, under the present arrangement, under the bankers' association, where we can become members ourselves; but we did say that we support this primarily or alternatively, the clearing activities should be centralized under the Bank of Canada. In other words, if there is some problem in arranging it through the Canadian Bankers' Association we are simply saying that perhaps it could go right under the Bank of Canada.

Mr. CLERMONT: It might be corrected easier if you become a member of the clearing house as it is now.

Mr. STEVENS: That is right, and I would presume that is what would happen.

Mr. MORE (*Regina City*): Mr. Stevens what schedule do you operate under in your clearing operations now. What do you call the schedule of charges that

you accept and operate under? Is it Schedule B or Schedule C? We heard about Schedule B. I am wondering what your schedule is?

Mr. STEVENS: Schedule B, I think. I think you probably have had access to information that we have not been able to get hold of.

Mr. MORE (*Regina City*): Do you not have a Schedule? Do you not accept a schedule for the charges that you pay? Do you not have it outlined?

Mr. STEVENS: No. As I understand it, we are told what we pay, but just what schedule it is we could not be certain. This letter, of course, which Lincoln Trust have and which I read, refers to their trying to see the rules and regulations governing the clearing system.

Mr. MORE (*Regina City*): In the case of Caisse Populaire and credit unions we were told they were presented with Schedule B and that was it. They accepted it or they did not get the privileges. Is there no schedule presented to your people?

Mr. STEVENS: To the best of my knowledge, there is not. We have operating people here from some of our trust companies and perhaps they could comment.

Mr. MORE (*Regina City*): They are all shaking their heads.

Mr. STEVENS: We are told that there is a flat fee and that it costs us, I think, five cents per cheque to clear through the bank. You remember the letter I read?

Mr. MORE (*Regina City*) Yes, I do, but that does not answer my question. That was a request to see by-laws and other things. I am talking about your Schedule of fees. Do they inform you by telephone and you make a memo of it?

Mr. STEVENS: No. As far as I know, all they tell you is that it cost you five cents a cheque and that there is a flat fee. Until this very moment I never realized that it was all set out in schedules and that there are A, B and C schedules.

Mr. MORE (*Regina City*) We heard about A and B and I wondered if there were others. Have these rates changed in recent years; if not, how long have they been static?

Mr. STEVENS: Mr. Freedman tells me that they are adjusted annually.

Mr. MORE (*Regina City*) That is different. I understood that Schedule B had not changed for eight years.

Mr. STEVENS: No. My impression was that they are static.

Mr. CLERMONT: Mr. Chairman, if I remember correctly, we were told that Caisse Populaire in Quebec were able to get better service than the credit unions dealing through one bank.

Mr. MORE (*Regina City*): Yes, that is true.

Mr. CLERMONT: Maybe we can pass the information on to the trust companies.

Mr. STEVENS: It would be very welcome.

Mr. MORE (*Regina City*): In the other case we were told that it was Schedule B, that they have a copy of it, that it is all set out and that they accept it because they have no alternative.

Mr. STEVENS: Maybe this Committee could intervene between us and these banks, and we could learn.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would have a talk with the credit unions and find out how they discovered it.

Mr. STEVENS: But there are much more expert witnesses than I here today who could speak to this point.

Mr. MORE (*Regina City*): Well, if you can give us the information, I would like to have it.

The CHAIRMAN: Mr. Stevens, you are entitled to call upon any others of your delegation with you to deal with any questions if they seem to be more capable of handling them. Mr. Sauve of Lincoln Trust.

Mr. L. P. SAUVE (*General Manager, Lincoln Trust*): The point that we are making with respect to the clearing is that we are expected on a day to day basis to process some 17,000 entries per month; we have not to this date been able to obtain a copy of the rules and regulations with respect to the clearing, and yet we are expected to know the rules and regulations. We must clear through a chartered bank, and the point in the brief is that this would be much easier for us to clear directly, to be full members of the Clearing House Association and have access to the rules and regulations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You would be in support of the recommendations of the Porter Commission in that respect?

Mr. SAUVE: Yes.

Mr. MORE (*Regina City*): Do you support the philosophy that the clearing should be at par and that there should be no exchange on cheques?

Mr. SAUVÉ: The question of exchange on cheques has not been considered or discussed by our group.

Mr. LAMBERT: Do you get instant credit on your items on deposit at the chartered banks, or is it only credit on payment?

Mr. STEVENS: I believe it is generally credit on payment in that the bank likes to have the obligation, the cheque that you are depositing, cleared and I think they generally assume that it takes three to five days. Upon clearing you get credit. I think this varies from bank to bank, there may be some that would give you instant credit but others would say that they felt that your customers' cheques—this is what I am talking about—should be given three to five days to clear before they will actually consider it a cleared item in your own account.

Mr. MORE (*Regina City*) But there are some items for which you get instant credit?

Mr. STEVENS: I can only assume that this varies from bank to bank because certain trust companies have told me that they had to wait three to five days; others have told me that they at least think they have instant credit.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Does this apply to certified cheques?

Mr. STEVENS: It depends on who certifies them. Do you mean certified by a bank?

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I mean certified by your own institution.

Mr. STEVENS: Again, I think it depends on the receiving bank.

Mr. LAMBERT: If by participating as a member in the clearing institution you were getting instant credit would you be prepared to accept the responsibilities and the cost of the float.

Mr. STEVENS: I think the banks have the float pretty well out of the system, as far as the loan companies are concerned. For example, any obligation of ours is charged against our account up to twelve midnight every night, and I think the balancing is as tight as they can possibly make it.

Mr. LAMBERT: This is all very nice in the metro areas where they have computers to work on. Let us assume that somebody comes into your trust company and deposits a cheque for $5,000 drawn on the Toronto-Dominion Bank in Vancouver. When you start to clear that item, do you get instant credit on deposit at your chartered bank or is that item on collection, which would mean perhaps a week or a little more. That is a case where that float has not been adjusted by any computer, it cannot be at the present time.

Mr. SAUVÉ: I can answer only with respect to our own individual company but items of $50,000 or more are cleared on the day on which the cheque is issued, and certified cheques are cleared instanteously. With respect to the float as the clearings come through the clearing house they are charged back to us a day earlier; in other words, there is a day charge back. So that any cheques which are presented today are charged against our account as of yesterday, and the float is offset in our particular case.

Mr. LAMBERT: It is a turning back of the float.

Mr. SAUVÉ: Yes, that is right.

The CHAIRMAN: Let me understand this correctly. You do not individually or as a group take part in any of the decisions or discussions regarding the administration of the clearing house?

Mr. STEVENS: Oh no, none whatsoever.

The CHAIRMAN: You obviously do not appear to have access to the figures which go to justify the costs that you are asked to pay?

Mr. STEVENS: That is correct.

The CHAIRMAN: If you want to participate in the system you pay the charges they ask of you.

Mr. STEVENS: Yes. We feel there are two additional points that perhaps could be mentioned in connection with our request to get into the clearing system. One is that it makes any institution to a certain degree precarious in that here you have thousands of customers who have chequing facilities with you and yet those facilities can only be cleared through, at least to some degree, a semi-competitive institution, and if that institution should say that they did not wish to clear any further you would have to make immediate arrangements to try to clear through another institution which would be awkward to say the least. We have received every assurance certainly from the people in Ottawa that they would try to ensure that something like that would never happen, but at

the same time the fact that you are not part of the clearing system puts you in the position where you are not first-hand able to clear yourself without going through an intermediary. The second thing, of course, is just the principle of it, the fact that you are not able to handle the chequing facility of the people who cheque with you, as other banks can, in a direct way. They have to be cleared through a competing bank who, in turn, had the carriage of your cheques.

The CHAIRMAN: Mr. Lambert raised something which perhaps you might confirm. If somebody comes in and deposits with you a cheque drawn on one of the chartered banks and it has to be handled, Mr. Sauvé, for example, through your Lincoln Trust operation, the banks do not pay you anything for your effort in moving that cheque through your system into the chartered banks clearing system?

Mr. SAUVÉ: No.

The CHAIRMAN: Do you have to pay the clearing house something for depositing that cheque in the clearing system?

Mr. SAUVÉ: I do not think there is any charge for deposits, just for the cheques.

The CHAIRMAN: I understood the credit unions to tell us that they actually had to pay the chartered banks something for the privilege of handling an item for them. I was wondering if you were in the same position.

Mr. STEVENS: Are you referring, Mr. Chairman, to when you wish to make a deposit with the bank?

The CHAIRMAN: No. Let us say that somebody came into your branch and wanted to deposit in his account a cheque drawn on a chartered bank. You have to move that cheque along through York Trust or Lincoln Trust and so on until at some point it gets into the account of the chartered bank with whom you retain a relationship for clearing purposes. You must have some expense moving that through your own operations. You are not allowed anything for that?

Mr. STEVENS: Oh, no. For example, if you had an account with us—

The CHAIRMAN: I do not.

Mr. STEVENS: —when your cheque passes through to our clearing agent it costs us five cents.

Mr. SAUVÉ: Mr. Chairman, if I understand your question correctly, the only place that there could be a charge is when in maintaining our account with the chartered bank there was an annual charge just for the maintenance of the account; in effect, the handling of the deposits through their particular account could be a charge directly against us.

The CHAIRMAN: I will recognize you right now, Mr. More. You must obviously have similar types of expenses for moving those cheques through your own branches and systems?

Mr. SAUVÉ: Just the daily operating expenses.

The CHAIRMAN: For which you are given no allowance by the chartered banks.

Mr. SAUVÉ: No.

Mr. MORE (*Regina City*): If you received for deposit a cheque drawn on a chartered bank, do you charge exchange on it if it is deposited?

Mr. SAUVÉ: Well, the exchange set-up within our own company is not any different than the exchange set-up with the chartered bank. If it is exchanged locally there is no charge, or if it is exchanged in any town where we have an office there is no charge. The system is not any different.

Mr. LAMBERT: But in the case that I have put: where a cheque for $5,000 drawn on the Toronto-Dominion or a chartered bank in Vancouver, where your trust company has not a branch, would that be subject to an exchange charge payable by your customer?

Mr. SAUVÉ: Yes.

Mr. STEVENS: But the exchange charge is the bank's charge.

Mr. LAMBERT: But it is the same one.

Mr. SAUVÉ: Yes.

Mr. LAMBERT: Are you charged fully or is there an adjustment?

Mr. SAUVÉ: Fully.

Mr. STEVENS: As I understand it—and one bank made it very clear to me one day—our account is no different really in its set-up than anybody else's account. The only facility they give is the fact that we can have, as Mr. Sauvé says, a large number of people, in effect, writing obligations which may be charged against our account, and that is the only facility that we have other than the same facility you have in your own chequing account.

The CHAIRMAN: Are there any further questions on the clearing house? If not, we will move on to topic No. 5, subordinate debentures. Do you have any further questions on these proposals?

If I may ask you a question myself, what is the nature of the debentures that are made available now by trust companies?

Mr. STEVENS: A trust company technically cannot issue a debenture in that the concept under the trust companies legislation is that you are purely a trust company and that all the monies you receive are in trust.

The CHAIRMAN: I am perhaps using the wrong term. I am referring to the certificates.

Mr. STEVENS: That is right. I was just going to mention that. But what the trust companies do is take money in in trust, which is what they call a deposit, or if it is for a term of one year or longer, they call it a guaranteed investment certificate. It means these are trust funds guaranteed by the company.

The CHAIRMAN: But they would rank ahead of the type of document or obligation that you are proposing.

Mr. STEVENS: That is correct. Now a loan corporation does not make this distinction in respect of trust funds. A loan corporation acts in the same way that a bank does; they simply borrow money from their customers. When you make a deposit with the bank you are loaning money to the bank. Now when you put deposits with a loan corporation, that is your relationship; it is a direct obligation of the company. And if it is for a year or longer it is in the form of a debenture.

Mr. LAMBERT: Of course the word "guarantee" is meaningless except as to the rate of interest.

Mr. STEVENS: Well, there is no guarantee what the company's own obligation—

Mr. LAMBERT: That is right.

Mr. STEVENS: The wording comes right out of the act.

Mr. LAMBERT: It has been suggested to me that it is an old carry-over and that it is really guaranteed as to the rate of interest.

Mr. STEVENS: And as to the return of principal.

The CHAIRMAN: I think what Mr. Lambert is driving at is that the guarantee only extends so far as the assets of the company itself; there is no higher authority that assists. I think that is his point.

Mr. LAMBERT: And if, unfortunately, the investments of a trust company go "blooey" then there is nothing there to fulfil the guarantee.

Mr. STEVENS: It has never happened. The point that I would mention though, is that a trust company is purely a fiduciary concept and the only way that they can take in funds is in their fiduciary relationship. The word "guarantee" comes in to distinguish taking in funds in a purely agency capacity where, for example, they take in $1,000 to administer some customer. They do not guarantee the return of that money. If you say it is to be put into a mortgage of some type and there is a loss on that mortgage, it is your loss. They simply have been acting as your agent in their fiduciary relationship. The guaranteed aspect comes in in that you are still putting money in trust with them but you ask them to guarantee the full return of interest and principal; but it is still a trust with the company.

Mr. LAMBERT: I see.

The CHAIRMAN: Are there any further questions with relation to subordinate debentures? If not, we will move on to the next topic, deposits by non-residents. Do you have a question on that topic?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, on the subject of deposits by non-residents. Do any institutions which are members of your association have formal relationships with any foreign institutions or foreign banks?

Mr. STEVENS: I believe Kent Trust has a portion of their capital owned by one of the Detroit banks, the Manufacturers bank in Detroit, but to my knowledge that is the only connection.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would that bank make investments in the trust company?

Mr. STEVENS: I do not know whether they do or not.

We have not a Kent Trust person with us. Kent Trust has its head office in Chatham, Ontario, and they have a branch in Windsor. That would be the only connection that I know of.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you.

The CHAIRMAN: I understand from reports that I have read in the paper that the interest of the Detroit bank is not in excess of 25 per cent.

Mr. STEVENS: It was definitely not control.

The CHAIRMAN: Are there any questions on the concluding paragraph of this?

Mr. CLERMONT: Mr. Stevens, will you explain what you mean on page 9 by the words "add-on" or "free balance". I have heard of compensating balance.

Mr. STEVENS: Well, a free balance is a procedure where in making a commitment to loan you funds the bank will indicate that part of the consideration will be that you will not maintain on balance, interest free, x dollars of money; sometimes it is expressed in a percentage of your total commitments, other times it is expressed in total amounts. In other words, if you are given a line of credit of $500,000 the bank may say that they wish you to maintain a balance of $50,000 with them at all times, free of interest.

Mr. CLERMONT: Is that desire expressed verbally or in writing? We were told by the bank that this is not the case?

Mr. STEVENS: I missed the last part of your question.

Mr. CLERMONT: Is that request for free balance or compensating balance made verbally or in writing by the banks?

Mr. STEVENS: I have asked for it in writing but, unfortunately, I have never received it in writing. I have had it often put to me orally.

Mr. CLERMONT: What do you mean, Mr. Stevens, when you say that in the case of some loans the interest was as high as 11 or 12 per cent? We were told that with some consumer or personal loans the rate of interest is 6 per cent, plus some added charges which would bring the costs of a loan to 11 or 12 per cent. Are you aware of any consumer loans where the interest is so high?

Mr. STEVENS: The effect of these compensating or free balances is one where you can get in actual terms very high rates of return being paid. For example, if you borrow from a bank $100,000 and leave on deposit with them $50,000, the rate of return is very high.

Mr. MORE (*Regina City*): Mr. Stevens, are you suggesting that there is this requirement made by banks?

Mr. STEVENS: Oh, no.

Mr. MORE (*Regina City*): We understand that in general it is a ten per cent balance.

Mr. STEVENS: Oh, it is moving up.

Mr. MORE (*Regina City*): Do you say from your knowledge of a compensating balance requirement that chartered banks are asking in excess of ten per cent?

Mr. STEVENS: I have heard of it, yes.

Mr. CLERMONT: Mr. Stevens, paragraph 3, article 93, reads as follows and I will read it in French:

(*Translation*)

"The bank shall not, directly nor indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer."

(*English*)

Mr. STEVENS: My translation system broke down.

Mr. SAUVE: So did mine.

The CHAIRMAN: I think that Mr. Clermont is reading the section in the present Bank Act.

Mr. CLERMONT: Paragraph 3 is not new, Mr. Chairman; it is the same as it is in the present Bank Act.

The CHAIRMAN: That is what I am saying. You are reading the section which in effect expresses the interest ceiling and prevents charges from being levied without the express agreement of the customer.

Mr. CLERMONT: That is for the operation of an account?

The CHAIRMAN: I presume the problem arises because there is some doubt as to what the definition of a compensating balance may be with reference to the wording of the law.

Mr. CLERMONT: I am referring to service charges for operating an account; the banks are not supposed to make any service charges on the customer unless he agrees to sign a certain form and most of these were deposited with this Committee last year.

The CHAIRMAN: That is the form.

Mr. MORE (*Regina City*): I understand that Western Bank does not have these things.

Mr. STEVENS: We have not made their first loan yet.

The CHAIRMAN: Are there any further questions of our witnesses?

Mr. GILBERT: Mr. Stevens, have your compensating balances been asked strictly on loans or because of the activity of your account?

Mr. STEVENS: As far as our own situation is concerned, the question of compensating balances has always arisen during the discussion of the loan. In other words, you request a loan and it is mentioned that if the loan is made there would be a compensating balance of x amount of dollars required. I believe Mr. Freedman wanted to comment on that too.

Mr. JARVIS FREEDMAN (*President of Rideau Trust*): We maintain a compensating balance for services because of the activity of your account.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): How is it calculated?

Mr. FREEDMAN: God only knows.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am sure the bankers know as well as God.

Mr. LIND: Does it take ten per cent of your loans?

Mr. FREEDMAN: We do not have loans. It is strictly operating costs.

Mr. CLERMONT: If you have, say, $100,000 as a compensating balance are you allowed to issue so many cheques without charge?

Mr. FREEDMAN: No; we must pay for our cheques and we must maintain our account at the end of the day, we must have sufficient money in our account plus our compensating balance to meet all obligations. We do not borrow from the bank.

Mr. CLERMONT: I know that. Do the banks ask you to keep a compensating balance even if you have no loans, and do they give you permission to issue so many cheques through your account without any actual charges. What is the reason for their request for a compensating balance if you do not have any loans?

Mr. FREEDMAN: For services rendered to us.

Mr. CLERMONT: Are they cheque deposits, or what are they?

Mr. STEVENS: In respect of clearing house privileges, it seems to me that pretty well every trust company here has a different arrangement with the banker. We pay so much per cheque. We pay an annual associate membership fee to the clearing house.

The CHAIRMAN: Are you invited to meetings?

Mr. STEVENS: No. We also have a difficult problem on recourse. Items are charged to our account after what we consider the normal legal recourse has expired. We have had items returned and charged to our account six weeks after clearance.

The CHAIRMAN: So that you maintain a balance and you pay service charges as well.

Mr. STEVENS: Yes, particular service charges.

The CHAIRMAN: You, Mr. Stevens, were referring to something different I gather, that is to say, a balance that was not connected with activity in the account. Do I understand that correctly?

Mr. STEVENS: I think we are talking about two different things here. When Mr. Freedman referred to his situation with Rideau Trust I think he would be referring to cash balances he carries with his bank and apparently there is some understanding in that there has to be a minimum amount in order to please the bank in relation to whatever services they feel they are performing for Rideau Trust in connection with their general activities with that bank. That is one thing, and I think all trust companies carry substantial cash balances with their banks just out of necessity. Certainly in our case, we carry several hundreds of thousands of dollars cash in the bank in order to ensure that clearings will not put us into an overdraft position at 12 midnight when they are charged up. Out of necessity you have to have these relatively large balances.

Mr. CLERMONT: Is it not the same thing with an individual in that when he issues a cheque he expects to have the balance in his account?

Mr. STEVENS: That is true. The question is with regard to the degree. In other words, we are talking in very large figures. I know that we carried during

one 12 month period on an average about three quarters of a million dollars daily balances in one company alone, free of any interest.

The CHAIRMAN: What about the second type of balance?

Mr. STEVENS: The second type is with respect to applications for loans. An oral suggestion is made to the effect that, if the loan is granted, it would be expected that a certain free balance or compensating balance would be maintained with the bank, which would be part of the consideration for their making a loan.

Mr. MORE (*Regina City*): These would be demand loans and if you did not meet the request would you have the loan called?

Mr. STEVENS: I do not think it would ever be put in exactly that language. On the other hand, in practice that might be what would happen.

Mr. CLERMONT: Is it a gentleman's agreement?

Mr. MORE (*Regina City*): A gentlemanly understanding.

The CHAIRMAN: Do we have any further questions?

Mr. GILBERT: I have a short question on the Rideau Trust compensating balance. Are you paid any interest on that compensating balance?

Mr. STEVENS: No.

The CHAIRMAN: We want to thank our witnesses for adding to our store of knowledge on these various issues and for this very interesting discussion. Tonight's meeting is cancelled. We will resume on Monday evening at eight o'clock. Our witness will be Mr. Rasminsky, the Governor of the Bank of Canada. He will be returning, pursuant to our arrangement when we began our hearings, to deal with issues that have arisen relevant to his responsibility. At that time our Vice-Chairman, Mr. Laflamme, will be in the Chair as well as for our two sessions on Tuesday since I have a speaking commitment.

The meeting is adjourned.

APPENDIX "OO"

This brief on the proposed amendments to the Bank Act is respectfully submitted to the House of Commons Committee on Finance, Trade and Economic Affairs by:

The Alberta Fidelity Trust Company	Edmonton
Central Ontario Trust & Savings Corporation	Oshawa
City Savings and Trust Company	Edmonton
District Trust Company	London
Fort Garry Trust Company	Winnipeg
Hamilton Trust and Savings Corporation	Hamilton
Kent Trust & Savings Company	Chatham
Lincoln Trust and Savings Company	Niagara Falls
The Metropolitan Trust Company	Toronto
Northland Trust Company	Timmins
Rideau Trust Company	Ottawa
York Trust and Savings Corporation	Toronto

Through some seventy branches (approximately 14 per cent of the total number of trust company branches in Canada), these companies serve approximately 180,000 depositors. Collectively they are registered to do business across Canada.

The above companies believe that the amendments to the Bank Act, if implemented as proposed, will bring far-reaching changes in the structure of the entire Canadian financial system, and will affect not only the chartered banks, but all types of "banking" institutions, including trust and mortage loan companies and consumer finance companies.

Parliament should not make revisions to the Bank Act in isolation, without concurrently undertaking revisions to public statutes which govern the operating position of other "banking" institutions. Taken in isolation, the proposed Bank Act amendments will tend to enhance and consolidate the already dominant position of the chartered banks in Canada. Such a move would run counter to the spirit and recommendations of the Report of the Royal Commission on Banking and Finance (Porter Report). This Report, published in 1964, made a number of recommendations designed to encourage a more creative and competitive banking and financial system in Canada, which the Commission felt would best serve the Country's changing needs.

"Banking" institutions were defined by the Commission to include all financial institutions which issue transferable, demand and short-term claims with an original term up to 100 days. On this definition, all of the companies joining in this submission would be "banking" institutions.

An important recommendation of the Report was that *all* Canadian "banking" institutions, (including chartered banks and trust and mortgage loan companies) should be granted broader investing and borrowing powers in order to promote a more competitive and flexible financial system in Canada.

The Commission also recommended that steps be taken to guard against excessive concentration in the financial system. The views of the Porter Commission are summarized on Page 375 of the Report:

"... we recommend that the powers of banking institutions be broader than any of them exercises under present legislation. They should all be free to invest in N.H.A. or conventional mortgages, subject in their conventional lending to the 75% loan-to-value limit....Similarly, they should all be free to make commercial and personal loans without restriction on the security they choose to take, and should all be entitled to the classes of security now available to chartered banks under Section 88 and related parts of the Bank Act, and to any loan guarantees which are offered by the Government to the present chartered banks. Other institutions need the same access to security as chartered banks if they are to compete effectively in this area, particularly as the banks' long experience and established position will give them a great working advantage."

We support completely the main recommendations of the Porter Report, relating to the encouragement of competition and the granting of wider loan powers to "banking" institutions.

We are not opposed in principle to the chartered banks receiving further advantages as contemplated in the proposed Bank Act now before you; but we do feel that Parliament should be extremely careful that in amending the Bank Act, they do not so improve the competitive position of the chartered banks that other "banking" institutions will find it difficult to compete with the chartered banks. Such action on the part of Parliament will defeat the objectives set out in the Porter Report and competition among banking institutions in Canada will lessen, not increase.

Accordingly, we recommend that the proposed Bank Act be passed in its present form but that the custom of revising the Bank Act every ten years be changed in favour of more frequent revisions, and that it be passed only after immediate steps are taken by Parliament to strengthen the competitive position of other "banking" institutions, by implementing the proposals recommended in this brief.

A review of recent chartered bank activity in Canada and their present position in our financial system supports our contention. Our chartered banks already enjoy a dominant position in the Canadian financial system and there is insufficient competition in the system at the present time. For example, the response of the chartered banks to "competition" from other "banking" institutions in the retail savings field has not been what free enterprise would dictate. Rather, their "competitive" response has been to ask Parliament for wider powers which, if granted in isolation, will enhance their already dominant position.

The chartered banks are, certainly, ideally placed to capitalize on any new powers they are granted. This fact was dramatically demonstrated following the last revision of the Bank Act in 1954, when the banks rapidly gained a dominant position in the new markets opened to them. The 1954 Bank Act allowed the banks to enter the NHA mortgage field. During the 1957-1959 period, the banks originated nearly 60% of the NHA loans made by private lenders. Also, following the 1954 Bank Act and as a result at least in part of revisions in the Act, the banks moved aggressively into the consumer loaning field, so that at the present time, chartered banks now hold 32.7 per cent of the total outstanding consumer credit in the Country compared with 14.1 per cent in 1957. In the same period

the sales finance company share of the market fell from 26.2 per cent in 1957 to 17 per cent today. (See Table 2.)

The present banking system in Canada is a highly concentrated one, where our three largest chartered banks alone control over 70 per cent of the chartered bank assets and over 50 per cent of the savings in the entire financial system, including savings held by the trust companies, loan companies and credit unions. This concentration is heightened by the fact that most of the Canadian banks are closely allied with certain of the larger trust or loan companies in the Country.

On June 30, 1966 trust company assets of a guaranteed or intermediary nature totalled approximately $3.5 billion, compared with a total Canadian dollar chartered bank position of $18,767,000,000. Three of our largest chartered banks (The Royal Bank of Canada, the Canadian Imperial Bank of Commerce and the Bank of Montreal) have *each*, total assets in excess of the entire trust company position, which includes some 50 companies.

Since June 1964, when the Bank Act first came up for revision, our chartered banks' Canadian dollar deposits have increased (in just over two years) from $15,665,000,000 to $19,172,000,000, a net increase of $3,507,000,000. The amount of this increase alone is approximately equal to the entire guaranteed or intermediary funds of all Canadian trust companies.

In Canada, the chartered banks operated a network of 5,786 branches (including agencies) in August, 1966. This network compares with a trust company network of approximately 500 offices. That is, at the present time the banks have approximately 12 offices in Canada for each trust company office. With the exception of The Provincial Bank of Canada and The Mercantile Bank of Canada which have respectively 369 and 7 branches, each of our chartered banks has more branches in Canada than the entire trust company industry. The Canadian Imperial Bank of Commerce alone has 1,354 branches or 2.7 times the total for the entire trust industry.

With chartered bank assets growing so rapidly and with their dominant position with respect to total assets and branches as shown above, it can be seen and has been shown historically, that their entry into new fields can be most dramatic and disruptive to those presently in such fields. Such action could easily result in a competitive imbalance which would be followed by a lessening of competition. In our opinion this would not be in the best interests of the Nation and would run contrary to the recommendations of the Porter Report.

A different type of banking system has evolved in the United States. From the very beginning the U.S. government has been fearful of a concentrated banking position, and has consistently intervened with legislation to ensure competition among financial institutions. Attempts, for example, to merge banks in one city or trading area, which would result in 40 per cent of the city's business being transacted by two banks, have been stopped by the federal authorities. At the present time, the combined assets of the three largest U.S. banks (Bank of America, First National City and Chase Manhattan) represent less than 8 per cent of the assets of the U.S. banks and savings and loan associations.

In the United States there is constant review by the Federal authorities to ensure that competitive imbalances do not arise unduly. Where such imbalances appear, early steps are taken to readjust the situation to ensure that one

segment of the financial industry does not get an undue advantage over the other. Recently the U.S. authorities took such action to correct an apparent imbalance between the banking industry and the savings and loan industry. A similar mechanism does not exist in Canada and accordingly care must be taken to ensure that such imbalance is not created through amendments to the Bank Act, the key statute in our financial structure.

We recommend that Parliament act decisively and promptly to reverse the trend in our Canadian financial system towards concentration and the elimination of competition which has developed and could develop if a competitive imbalance should arise as indicated above. If the Bank Act is amended as proposed, without concurrent action to improve the position of other "banking" institutions, we believe such an imbalance will occur and the concentration in our system will increase and competition will lessen.

Encouragement of Competition

In contrast to 25 years of concentration and lessening of competition in our financial system following 1930, there has been in the last ten years an encouraging growth in the savings, trust and mortgage field by newly active concerns. As Table 1 indicates, at least 24 trust or mortgage loan companies have become active in the savings field since 1955. As a group, these newly active "banking" institutions were successful in raising $36 million in fresh equity money from their shareholders during the 4-year period from 1961 to 1965, thereby enlarging their capital base and their ability to compete. Since 1961, these banking institutions have been able to attract $285 million in public savings in the form of deposits, debentures and investment certificates. Given the preservation of competitive conditions and equal opportunity, these newly active companies might be expected to grow and prosper.

A strong post-war demand for mortgage funds, plus the willingness of these companies and other previously established trust and loan companies to compete aggressively for public savings, are the main underlying factors contributing to the growth of these trust and mortgage loan companies in recent years. This recent growth, however, has only restored the trust and loan industry to the percentage position in the Canadian financial system which it enjoyed in the 1920's.

The Porter Report, in Chapter 10, includes some historical information indicating that the trust and loan companies were similarly successful in competing for public savings in the 1920's, when the demand for mortgage funds was equally strong. In the 1930's and 1940's, however, trust and loan companies lost ground relative to the banks, owing to the weak demand for mortgages. It was not until the mid 1960's that the trust and loan industry regained its relative position in size to the chartered banks.

Should near-term weakness develop in the Canadian mortgage market, perhaps due to a combination of falling demand and new competition from the chartered banks, it is obvious that the growth prospects of trust and loan companies would be greatly diminished. Therefore, if it is the intention of Parliament to encourage competition in the Canadian financial system, we submit Parliament must intervene decisively, through compensating legislation, to broaden the powers of other "banking" institutions to offset the extra advan-

tages to be given the chartered banks in the proposed Bank Act now before the Committee.

Your Committee is therefore urged to recommend to Parliament that the following legislative steps be undertaken, on a timetable concurrent with the enactment of the revised Bank Act.

1. Unsecured Loans and Consumer Credit

Both the Trust Companies Act and the Loan Companies Act should be amended to authorize companies registered under them to make consumer loans, and to make loans on less security or different security than now is required. This is in keeping with the key recommendation of the Porter Report.

It is noted that the Minister of Finance intends to call a federal-provincial conference to consider all aspects of consumer credit in relation to credit-granting institutions. In order to ensure fair competition, these powers should be given to trust and loan companies concurrently with the entry of the banks into the conventional mortgage loaning field.

2. Deposit Insurance

The need for deposit insurance was perhaps indicated indirectly when Mr. S. T. Paton, President of The Canadian Bankers' Association appeared before you on November 24, 1966 and testified against the chartered banks being required to disclose their "inner reserves" as contemplated in the new Bank Act.

A Canadian Press report states Mr. Paton said; Making public these details about their contingency funds and losses through bad debts could shake public confidence in the banking system... Business failures tend to come in bunches, and a run of bankruptcies resulting in a severe impact on inner reserves "could be an embarrassment". If only one of the eight chartered banks was hurt, the damage could spread throughout the banking community because of public apprehension.

The competitive position of "banking" institutions other than chartered banks, and the prospects for the incorporation of new banks would be greatly improved by the introduction in Canada of a system of deposit insurance similar to the one in existence in the U.S.A. Depositors in the U.S.A. have enjoyed this added protection since 1933, and its introduction in Canada is long overdue. We consider that the implementation of deposit insurance in Canada as proposed by the Minister of Finance would instil added confidence in our financial institutions and go a long way towards broadening the base of competition.

The Minister's action in this regard should be endorsed and immediate action should be taken by Parliament to pass upon presentation the Minister's proposed bill to establish a Crown Corporation which will provide deposit insurance to all chartered banks and all other federally chartered "banking" institutions, in a manner similar to the operation of the Federal Deposit Insurance Corporation in the U.S.A. The services of the Insurance Corporation in Canada should also be made available to provincially-incorporated financial institutions who qualify and agree to be bound by the operating rules of the Corporation.

We believe that deposit insurance as described above should be implemented and available at the same time the revised Bank Act comes into force.

3. Bank of Canada or other Recourse

It is also recommended that the Bank of Canada or the Corporation which is set up to provide deposit insurance, be empowered to make short-term loans to all "banking" institutions that qualify. In effect, the Bank of Canada or the Insurance Corporation would be empowered to act for all "banking" institutions, on terms and conditions similar to the way the Bank of Canada now lends short-term funds to both chartered banks and money market dealers. This would be a further step in equalizing competitive conditions in the financial system.

4. Clearing System

At the present time, membership in the Clearing House has been restricted to the chartered banks, by virtue of provisions contained in the Canadian Bankers' Association Act. This means that other financial institutions who accept deposits must clear their customers' cheques through one of the existing chartered banks, and in reality they have no privileges or rights over and above those of any other customer who deals with a bank.

Such "banking" institutions have no assurance that present clearing arrangements will be continued, and the present system gives chartered banks a competitive advantage over other "banking" institutions in that clearing has to pass through a competing chartered bank.

The Porter Report recommended that the clauses of the Canadian Bankers' Association Act which give the Association the right of operating the clearing system, should be repealed, and an association of all clearing institutions should be formed to manage the system and allocate costs equitable among all members in relation to the work done for each. We support this recommendation or any initiative to centralize the clearing activities under the Bank of Canada.

5. Subordinate Debentures

It is requested that the Trust Companies Act and Loan Companies Act be amended to provide for the issue of long term subordinate debentures by Canadian trust and loan companies. Such debentures would be subordinated to the deposit and certificate liabilities and debentures presently being issued by trust and loan companies and would rank in an intermediate position in preference to the shareholder equity. By virtue of its subordinate position, the long term subordinate debenture debt of a trust or loan company would be regarded as part of the capital base of a company, for purposes of computing its maximum borrowing potential in relation to capital. Revisions to the Bank Act contemplate the creation of this type of security for the chartered banks. On grounds of equity, a similar provision should be enacted for the other "banking" institutions.

6. Deposits by Non-Residents

The chartered banks presently enjoy an unfair advantage in soliciting foreign currency deposits by virtue of the provisions of Section 106 of the Income Tax Act. This Section waives the 15% withholding tax on interest paid on foreign currency deposits in the chartered banks. It is recommended that the same provision should apply to all "banking" institutions as well under the same circumstances.

Conclusion

The intentions of our chartered banks were clearly shown when Mr. S. T. Paton, President of the Canadian Bankers' Association, appeared before you on November 8th. Mr. Paton is reported to have said, "If the ceiling is lifted,... the banks will be able to attract more deposits away from the so-called near banks and make more loans to business and small borrowers."

We respectfully suggest that with the banks having the competitive advantage outlined above and with their intentions stated so bluntly, care should be taken by Parliament that before revising the Bank Act, other relevant legislation as indicated in this brief should first be amended to ensure that there may be more rather than less competition in Canada's financial system.

It is also submitted that a ten-year interval is too long a period between revisions of the Bank Act in Canada. The Bank Act has, in fact, only been revised once since the end of the Second World War. During this interval, the assets of the Canadian chartered banks have increased by approximately $20 billion, and the character of banks and the entire system has altered greatly. The new Bank Act should contain a provision providing for more frequent revision of the Act, perhaps every three to five years, or indeed whenever Parliament is of the opinion that the Act has caused a competitive imbalance in our financial system which would not be in the best interests of the nation.

More frequent revisions of the Bank Act would also ensure that Parliament might move quickly to correct any ambiguity in the Act's provisions which become apparent, as they have in the past, in the actual day-to-day operations of the chartered banks. For example, confusion has arisen since the last revision of the Bank Act as to the method of calculating interest on loans charged by chartered banks. By using an "add-on" or "free balance" method of charging interest, or through "service charges" some chartered banks now realize an effective interest rate of over eleven per cent on certain loans, yet they maintain they are still within the six per cent ceiling set out in Section 91 of the present Bank Act. (See Page 127 of the Porter Report.)

As indicated in the Porter Report, Canada needs a more open, competitive financial system. The revised Bank Act now before this Committee extends certain advantages to the chartered banks which cannot help but allow them to extend and concentrate further their position in Canada. It is essential that this danger be offset by extending to other "banking" institutions without delay, compensating powers to preserve their competitive position in the system. Such actions by the Parliament of Canada will be followed in most cases by similar provincial legislation and the recommendations of the Porter Report will thus be met, at least in part.

TABLE 1

THE SAVINGS, TRUST AND MORTGAGE INDUSTRY
SAVINGS ACTIVITIES OF 24 NEWLY ACTIVE "BANKING" INSTITUTIONS

Name of Company	Date of Incorporation	($000) Liabilities to the Public		($000) Shareholders' Equity	
		Increase 1961–1965	Total Dec. 1965	Increase 1961–1965	Total Dec. 1965
		$	$	$	$
The Alberta Fidelity Trust Company	1912[1]	3,900	3,900	925	1,325
Atlantic Trust Company	1964	1,600	1,600	1,060	1,060
Central Ontario Trust & Savings Corporation	1964	4,000	4,000	720	720
City Savings & Trust Company	1964	14,900	14,900	1,450	1,450
Commonwealth Trust Company	1962	14,400	14,400	1,280	1,280
District Trust Company	1964	2,200	2,200	1,770	1,770
The Fidelity Trust Company	1909[1]	4,200	4,200	300	510
Fort Garry Trust Company	1964	4,100	4,100	1,430	1,430
Halton & Peel Trust & Savings Company	1955	32,700	48,300	1,300	2,610
Hamilton Trust and Savings Corporation	1963	11,100	11,100	1,615	1,615
Kent Trust & Savings Company	1964	2,200	2,200	1,500	1,500
The Lincoln Trust and Savings Co.	1964	9,300	9,300	2,008	2,080
The Metropolitan Trust Co.	1962	21,100	21,100	2,785	2,785
Northland Trust Co.	1961	6,100	6,100	710	710
North West Trust Co.	1957	17,300	21,500	2,060	3,170
Rideau Trust Co.	1964	1,400	1,400	520	520
Savings and Investment Trust Co.	1960	15,200	16,200	1,080	1,580
Trans Canada Savings & Trust Co.	1963	3,600	3,600	350	350
York Trust and Savings Corporation	1962	72,400	72,400	5,170	5,170
Total of 19 trust companies		241,700	262,500	28,105	31,635
Canadian First Mortgage Corporation	1963	7,000	7,000	1,290	1,290
Commonwealth Savings & Loan Corporation	1959	20,300	21,300	1,970	2,570
Federal Savings and Loan Corporation	1964	3,100	3,100	1,410	1,410
Fidelity Mortgage and Savings Corporation.	1963	5,600	5,600	1,930	1,930
General Mortgage Service Corporation of Canada	1961	7,200	7,200	1,320	1,320
Total of 5 mortgage companies		43,200	44,200	7,920	8,520
Total of 24 "banking" institutions		284,900	306,700	36,025	40,155

NOTE (1): Not active in the savings field prior to 1961.
Source: Financial Post Survey of Industrials (various).

TABLE 2

THE NHA MORTGAGE MARKET IN CANADA
($ millions)

	New Loans by Chartered Banks	New Loans by Trust & Loan Cos.	Total Loans (excl. CMHC)	Loans by CMHC
	$	$	$	$
1957	173	9	278	235
1958	300	48	519	389
1959	175	19	308	367
1960	1	64	242	168
1961	NIL	195	453	271
1962	NIL	177	412	172
1963	NIL	167	385	302
1964	9	180	352	377
1965	6	201	321	461

COMMENT

During the 1957–1959 period, Canadian banks originated $648 million in new NHA loans. Total loans in this period by private lenders (excluding CMHC) amounted to $1,105 million. Thus the chartered banks accounted for nearly 60% of new NHA loans during this three-year period. Subsequent to 1959, interest rates moved above 6% and the ganks curtailed their NHA loaning.

CONSUMER CREDIT IN CANADA
($ millions)

December 31	Chartered Banks Personal Loans	Loans by Sales Finance Cos.	Total o/s Consumer Credit (1)	% Share Taken by Banks	% Share Taken by Sales Finance Companies
	$	$	$		
1957	421	780	2,976	14.1	26.2
1960	857	828	4,020	21.3	20.6
1965	2,186	1,142	7.055	31.0	16.2
1966–July	2,338*	1,219	7,150†	32.7	17.0

(1) Including life insurance company, consumer loan company and credit union loans, department store and other retail credit.

*Over 23% of their loan-position †Estimate

SOURCE: Bank of Canada
Statistical Summary
November 1966

COMMENT

On Page 126 of the Porter Report it is stated:

"One of the most dramatic shifts which has occurred in bank assets has been the growth of mortgage and other loans to individuals. Since 1945 chartered bank lending to individuals has jumped from $269 million to $2,573 million, accounting for 32% of the increase in the banks' loans and holdings of non-government securities. Mortgages under the National Housing Act climbed to almost $1 billion between 1954, when banks were first permitted to acquire them, and 1959."

ADDENDUM

The following companies endorse the foregoing brief:

Commonwealth Savings & Loan Corporation, Toronto
Federal Savings and Loan Corporation, Toronto
Fidelity Mortgage and Savings Corporation, Hamilton
Inland Trust and Savings Corporation Limited, Winnipeg
International Savings and Mortgage Corporation,
Winnipeg and Montreal

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 40

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MONDAY, JANUARY 30, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESS:

Mr. Louis Rasminsky, Governor of the Bank of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25637—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Chrétien,
Clermont,
Coates,
Comtois,
Davis,
Flemming,
Fulton,
Gilbert,
Irvine,
Johnston,
Lambert,
Latulippe,
Lind,
Macaluso,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

MONDAY, January 30, 1967.
(81)

The Standing Committee on Finance, Trade and Economic Affairs met at 8:05 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Davis, Flemming, Gilbert, Gray, Johnston, Laflamme, Latulippe, Monteith, More (*Regina City*), Munro, Wahn—(13).

In attendance: Representing the Bank of Canada: Messrs. L. Rasminsky, Governor; J. R. Beattie, Deputy Governor; L. Hebert, Deputy Governor; G. K. Bouey, Adviser; R. Johnstone, Deputy Chief, Research Department. *And also:* C. F. Elderkin, Special Adviser, Department of Finance, and Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation and Mr. Rasminsky was questioned.

During his testimony Mr. Rasminsky tabled a memorandum headed *Extracts from Bank of Canada record made at the time of conversations between L. Rasminsky and R. P. MacFadden of First National City Bank of New York regarding consultations with Minister of Finance with respect to acquisition of Mercantile Bank.*

The Committee agreed that the document was tabled without prejudice to a possible request to table the complete memoranda later, if the Committee should so direct. Copies of the memoranda were distributed to the members.

On motion of Mr. Clermont, seconded by Mr. Davis,

Resolved,—That the memorandum tabled by Mr. Rasminsky be included as an appendix to the Minutes of Proceedings and Evidence. (*See Appendix* page 2799).

The questioning continuing, at 10:20 p.m. the Committee adjourned until 11:30 a.m. Tuesday, January 31, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

25637—1½

EVIDENCE

(*Recorded by Electronic Apparatus*)

MONDAY, January 30, 1967.

The CHAIRMAN: Gentlemen, I think we are now in a position to begin our meeting. As you know, our principal witness this evening is Mr. Louis Rasminsky, the Governor of the Bank of Canada. He is with us at this time pursuant to an arrangement that we made at the conclusion of his testimony at the beginning of our public hearings to the effect that he would make himself available, when we seemed to be reaching a conclusion, to deal with matters pertaining to his responsibilities that had arisen between his first appearance and this latter stage.

I understand Mr. Rasminsky has with him Mr. J. R. Beattie, Deputy Governor; Mr. L. Hebert, Deputy Governor; Mr. G. K. Bouey, Adviser to the Bank, and R. Johnstone, Deputy Chief of the Research Department of the Bank.

I have asked Mr. Rasminsky if he has an opening statement. He tells me that he does not have one but would prefer instead to make himself available immediately for questioning. I have asked the members to signify their interest in the usual manner.

(*Translation*)

The first name that I have on my list is Mr. Clermont.

Mr. CLERMONT: Since last Tuesday especially we have heard the name of the Mercantile Bank of Canada quite often. I am sure that you are very well aware of the fact that on Tuesday evening Mr. MacFadden, tabled a brief prepared by him after the meeting he had with you. I wonder, first of all, whether you, Mr. Rasminsky, have also prepared a brief about that meeting you had, and secondly, if you suggested, advised or recommended to Mr. MacFadden, that before there was any kind of agreement between the Citibank and the Mercantile Bank, representatives or officers of the Citibank meet with Mr. Gordon, and thirdly, are you aware of the brief?

Mr. RASMINSKY: Mr. MacFadden's brief? Yes.

Mr. CLERMONT: Of section 4 and I quote:

(*English*)

"He approved the sequence of steps we propose to take."

(*Translation*)

Mr. RASMINSKY: Yes, I did see Mr. MacFadden on June 20.

(*English*)

Mr. CLERMONT: Mr. Rasminsky, I suggest to you that the first time you gave evidence to the Committee, it was my privilege to ask the questions in French.

Mr. RASMINSKY: And your privilege to hear the reply in good English.

Mr. CLERMONT: It is up to you. I must say that your French is very good too.

Mr. RASMINSKY: Thank you very much, Mr. Clermont. I am pleased to reply to the question in English because the notes which I made of the conversation with Mr. MacFadden on June 20 and of two subsequent telephone conversations with him are in English. In replying to your question I propose to rely entirely on the notes which were made of those conversations at the time.

In reply to your second question, I did, in fact, urge Mr. MacFadden to see the Minister of Finance before concluding the transaction. My note on this subject, if I can deal entirely with this particular question as it arose in the three conversations that I had, is that Mr. MacFadden, in the first conversation, indicated that if the Minister of Finance or I expressed very strong views against their coming in, the bank would certainly reconsider their decision. I said that the administration of the Bank Act was a matter for the government and not the central bank and I strongly urged them to see the Minister of Finance and hear his views before concluding their negotiations with the Mercantile. That is the way my note reads, "with the Mercantile." It should, in fact, have read "with the Dutch owners" of the Mercantile. My note goes on later, after other subjects were dealt with that he—that is MacFadden—said that he had intended to speak to the Minister of Finance at the same time as he spoke to me but as he was involved in the Budget Debate it was clearly impossible to see him. I urged him not to push the matter to a conclusion with the Mercantile before seeing the Minister of Finance and he undertook that they would not do so. Those are the extracts of my note of the conversation dealing with the subject of your question.

Mr. MacFadden on July 2 phoned and said that they now had a deal to buy the shares of the Mercantile subject to the approval of both boards. I said that I assumed that before completing the deal Mr. MacFadden planned to see the Minister of Finance and he replied in the affirmative, saying that he and Mr. Rockefeller were proposing to come here on July 18, if this was satisfactory. I said that I attached great importance to him talking to the Minister of Finance before making a final commitment. I wondered whether they were aware of the views that the Minister of Finance had expressed regarding foreign ownership and control of Canadian chartered banks in the preliminary report of the Royal Commission on Canada's Economic Prospects. I read him the full text of paragraph 20 on page 93 of this report. I do not reproduce in my own notes the next of paragraph 20 on page 93 but we do have a copy available here if it is needed.

The third conversation took place on July 26, 1963. On that date Mr. MacFadden telephoned to report on developments related to the National City's purchase of the shares of the Mercantile. He said that the Minister of Finance had been fairly tough in indicating to them that he did not wish them to proceed with the transaction but that after serious consideration they had decided to go ahead. They were arranging to see the Minister again on Monday. I reminded Mr. MacFadden of his remark at an earlier meeting in the Bank of Canada, that they would want to have the approval of the authorities before going ahead. Mr. MacFadden said that this had meant that they would only go ahead without that approval after very serious consideration. They had done this and

decided to go ahead. That is the record of the three conversations dealing with this matter.

I may say that in the ordinary course of events I would be very reluctant indeed to make public the Bank of Canada record of what was a private conversation and it is only the extraordinary nature of the present circumstances, the fact that these conversations, particularly the conversation of June 20, have already been the subject of discussion in this Committee and the fact that a version of the conversation has been published that has led me, reluctantly, to the conclusion that it would be right for me to make public in this way the Bank of Canada internal report of this conversation.

Your third question, Mr. Clermont, was whether I had expressed approval of the sequence of steps that the Citibank was proposing to take with regard to the Mercantile. I think that the rest of the content of Mr. MacFadden's memo which deals with the problems that I raised in connection with the matter would suggest that I did not express approval of the substantive action that they were taking. I think what occurred was that Mr. MacFadden told me that the Citibank had been considering for some time coming into Canada and had considered various alternatives, of which the principal alternatives were applying for a charter under the Bank Act or acquiring the stock of the Mercantile. I did confirm to Mr. MacFadden that in my judgment, though I am not a lawyer, there was no legal obstacle to their acquiring the stock of the Mercantile. I think it is quite probable, although I have no distinct recollection of this, that I advised them that in my opinion there would be some doubt as to whether if they applied for a charter under the Bank Act they would succeed in obtaining a charter. But I would not consider it an accurate version of the general view that I expressed approval of the sequence of steps they were proposing to take.

(*Translation*)

Mr. CLERMONT: Mr. Rasminsky, would you object to tabling the memo you have just read.

(*English*)

Mr. RASMINSKY: Mr. Clermont, as I indicated before, I have some reluctance to publish internal memoranda of the Bank. I had thought that it would be likely that I would be asked the question that you have put to me and I came to the conclusion that in all the circumstances the right course of action for me to follow was to put myself in the hands of the Committee. If the Committee feels that it would be helpful to their consideration of this question to have copies of the memoranda that were prepared at the time—that is, the memoranda of the three conversations that I have referred to—I would be prepared to have them tabled. But you recognize that this is an extraordinary situation.

I would like to say that the reason I attach importance to making it clear that the circumstances would have to be extraordinary to warrant that action is that a good many people come into my office and tell me of their worries and their plans in confidence. It is helpful to the central bank in the conduct of its duties to be the recipient of such confidences and I would not like any action that I take in this respect with regard to these memoranda to lead anyone to believe that when they came in and talked to me they were running the risk that a memorandum of the conversation might be tabled. The circumstances connected

with this case are extraordinary, first, because it is a direct object of legislation and consideration of the Committee and, second, because the record of the Committee is already spread out with accounts of these conversations. In these extraordinary circumstances I am quite prepared to put myself in the hands of the Committee and table the memoranda.

(*Translation*)

Mr. CLERMONT: Mr. Rasminsky, I can only express my own opinion, but the fact that Mr. MacFadden accepted to table his confidential memorandum is most extraordinary. In my opinion it would be better for your memoranda or memorandum relating to your meeting of June 20th and 2nd of July, I do not remember the third one—

Mr. RASMINSKY: July 26.

Mr. CLERMONT: —be tabled in the Committee.

(*English*)

The CHAIRMAN: Mr. Rasminsky, as I understand your position, you are saying that you do not, under the circumstances, have a direct objection to the tabling of the specific memoranda relating to the meeting and the two conversations in question but you would not want to have this act taken as a precedent with respect to any past or future memoranda of conversations and meetings under your responsibilities as Governor. Is that correct?

Mr. RASMINSKY: Sir, that is correct.

The CHAIRMAN: With Mr. Clermont's permission, if we could just digress for a moment, I was going to invite comments from the members of the Committee, on this particular aspect of the tabling of the documents.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Rasminsky, in spite of the extraordinary circumstances do you feel that tabling these memoranda may, perhaps, in some way, inhibit your future relations? We have to decide whether we are going to cause more damage than not by tabling them. In spite of your statement here tonight do you think it will create some problems for you in the future.

Mr. RASMINSKY: Mr. Cameron, I have no way of knowing that. I would quite frankly hope that people who have come to see me in the past and those who may come to see me in the future would recognize—at least if these memoranda are tabled—that these circumstances were extraordinary, that they might even recognize that my position in resisting tabling the document might have certain elements of awkwardness to it, and that it would not affect their view, that they could continue to come and talk to me in confidence and in the assurance that the confidence would be respected, which it certainly would. Although I cannot be completely sure, I would hope that the answer to the question would be that the tabling would do the Bank no harm.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The thought occurred to me that your evidence here this evening, which has substantiated what we were told by Mr. MacFadden's memoranda perhaps would be sufficient.

The CHAIRMAN: Is there any further comment on the question of tabling these documents.

Mr. MORE (*Regina City*): Mr. Rasminsky, was there any consultation between you and Mr. MacFadden with regard to tabling his documents.

Mr. RASMINSKY: No, sir.

Mr. MORE (*Regina City*): He did it without any consultation?

Mr. RASMINSKY: Yes, sir.

Mr. GILBERT: Mr. Rasminsky, did you make separate memoranda for each interview that you had with Mr. MacFadden?

Mr. RASMINSKY: Yes. There were three interviews: the long conversation of June 20, of which I made a note; the telephone conversation of July 2, of which I made a note, and a telephone conversation of July 26. After the telephone conversation of July 26 I immediately called into my office Mr. W. E. Scott, who was at that time Executive Assistant to the Governors of the Bank of Canada and who is now Inspector General of Banks; I told him the details of the conversation and asked him to make a memorandum of the conversation, which he made and which I initialled. So that separate notes were made of these conversations; two of them by me and one by Mr. Scott.

Mr. GILBERT: Is the memorandum that you refer to tonight a summary of your three memoranda?

Mr. RASMINSKY: The notes that I was using in my initial reply to Mr. Clermont's question consist of the extracts from these three memoranda dealing with one single point, namely, the question whether the First National City Bank people were advised to see the Minister of Finance before concluding the transactions. There is other subject matter dealt with in the full memoranda.

The CHAIRMAN: Are there any further suggestions with regard to the specific point of tabling the documents?

I might say to the Committee that it might want to take into account the necessity of eliminating any possibility of the suggestion being made that the Governor is raising this question of tabling the documents through lack of confidence, if I may put it that way, with respect to their content. It should be made absolutely clear, Mr. Rasminsky, that you are concerned with respect to the broad issue of confidentiality of discussions with the Governor and that you have no hesitation with respect to the specific memoranda in question.

Mr. RASMINSKY: That is quite right. That is the only object of my concern.

Mr. MONTEITH: Mr. Chairman, may I ask Mr. Rasminsky a question. I think you mentioned that you have dealt only with those extracts from your notes that had to do with this one particular question.

Mr. RASMINSKY: In reply to Mr. Clermont's question.

Mr. MONTEITH: Yes. Are there any extracts in those notes which apply to other phases of the deal which might be considered, under ordinary circumstances, confidential?

Mr. RASMINSKY: Do you mean commercial aspects of the deal?

Mr. MONTEITH: Yes.

Mr. RASMINSKY: No, sir.

Mr. DAVIS: It seems to me, Mr. Chairman, that other members of the Committee may have other questions which bear on the basic memorandum, and perhaps after we have heard some of these questions we might then decide whether they should be produced or not, instead of deciding now.

The CHAIRMAN: Yes, and I also throw out another suggestion for the consideration of the Committee. Mr. Rasminsky might meet this point by tabling the composite memorandum setting forth the specific extracts on which he has relied to tell us what happened in the course of these conversations.

Mr. RASMINSKY: We have a number of copies of these documents here and I would be prepared, of course, to place that document before the Committee.

The CHAIRMAN: Members of the Committee, perhaps the suggestion that I have just made might be the initial way of dealing with this: that if Mr. Rasminsky feels that this step will be consistent with his responsibilities regarding keeping confidential the general tenor of discussions and so on, Mr. Clermont's request might be met, at least initially, by him requesting the tabling of the composite memorandum.

Mr. RASMINSKY: Yes. I am quite prepared to do that at once. All that I would be tabling, of course, would be, in effect, the notes that I have read, and I am quite prepared to do that.

The CHAIRMAN: And these notes are the extracts from the memoranda—

Mr. RASMINSKY: These are the extracts from the memoranda dealing with this one specific point, consultations with the Minister of Finance with respect to the acquisition of the Mercantile.

(*Translation*)

The CHAIRMAN: Mr. Clermont, do you wish to have these notes tabled?

(*English*)

Mr. CLERMONT: Mr. Chairman, I remember well what I said. I said that I am expressing my own opinion and it is up to the Committee. My opinions are on the record, and if the Committee wishes these memoranda or only a résumé of them produced, I have no objection.

The CHAIRMAN: I think that this memorandum, as I gather, goes beyond a résumé; they are the specific extracts.

Mr. RASMINSKY: That is right.

The CHAIRMAN: Each of the three memoranda that were made the first after the meeting, and the second and third, after each of the telephone conversations, dealing with the specific question you have asked contain more than the résumé. Perhaps, if I may take the initiative myself, I would invite the Governor to table what I refer to as the composite memorandum and if the Committee in the course of questioning later feels that further extracts are necessary, we may deal with the specific issue of that time. Does that meet with your approval?

Mr. LAFLAMME: Mr. Rasminsky, if you have made notes of the essential context in your memos, how could it be of harm to anyone if the full memos were tabled?

Mr. RASMINSKY: Well, Mr. Laflamme, I am not, as you know, arguing against tabling the full memos. I have indicated that I am perfectly willing to table the memos if the Committee wishes me to do so. The notes that the Chairman has suggested that I table are not a résumé of the whole conversation; they are the complete record of the conversation on one point, and one point only, namely, the question of consultation with the Minister of Finance before acquisition of the Mercantile. The conversations covered a wider ground than that; they covered some of the substantive issues involved in the possible entry of the Citibank into Canada through the acquisition of the Mercantile.

Mr. CLERMONT: Were you expressing to Mr. MacFadden at that time the views of the Bank of Canada?

Mr. RASMINSKY: I was essentially raising questions with Mr. MacFadden. The first that I knew of the desire of the Citibank to acquire the Mercantile was in the course of the conversation on June 20th, so that I did not express the considered view of the Bank of Canada but I did raise a number of questions with Mr. MacFadden.

The CHAIRMAN: May I suggest to the Committee that for a start at least I invite the Governor to table the relevant extracts—I think that is a better term than composite memorandum—from the three memoranda dealing specifically with Mr. Clermont's question. Then I ask him to do so without prejudice to the right of the Committee to ask for the presentation to us of the complete memoranda before Mr. Rasminsky completes his testimony. Is that satisfactory to the Committee:

Some hon. MEMBERS: Agreed.

The CHAIRMAN: May I ask you to have one of your associates present us with this information. I will ask the Clerk to assist us. I would suggest to the Committee that since we are starting this issue— and I want to give the floor back to Mr. Clermont who was kind enough to yield it so that we could deal with this procedural matter—we try to exhaust our questions on this particular topic—I do mean this precise question but the general topic with respect to he relations of the Mercantile-Citibank interests with the government as they have come before us and, in the same context members may put any questions they may have to the Governor as to his views of the effect of the operations of foreign banking institutions in the country. Then, of course, we will proceed to recognize members on all the other issues which I am sure interest them as a result of the many suggestions and points made by the other witnesses who have appeared before us over the last several months.

(*Translation*)

The CHAIRMAN: Mr. Clermont, you could perhaps continue your questions.

Mr. CLERMONT: In paragraph 2, you say:

(*English*)

"MacFadden phoned this afternoon and said that they now had agreed to buy the shares."

(*Translation*)

Are you under the impression, or are you convinced, Mr. Rasminsky, that the transaction for the purchase of shares was finalized at the time when you spoke to MacFadden over the telephone? Had the deal been finalized then?

(*English*)

Mr. RASMINSKY: Mr. Clermont, I think the answer to your question is contained in the next sentence of the memorandum. The expression that "we have a deal" was indeed the expression that Mr. MacFadden used. It raised in my mind the same question that you are now putting to me, and so, as I say in the text of my note of the conversation which has now been distributed to you, "I said that I assumed that before completing the deal, MacFadden planned to see the Minister of Finance, and he replied in the affirmative" and asked me to arrange for him and Mr. Rockefeller to see the Minister of Finance on July 18th.

(*Translation*)

The CHAIRMAN: Have you finished, Mr. Clermont?

Mr. CLERMONT: For the moment, yes I have.

(*English*)

The CHAIRMAN: I will now take further questions. Will the members please indicate to me their interest, if any, in asking further questions at this point.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is this confined to the conversations with Mr. MacFadden?

The CHAIRMAN: No. I would also think that if the members wish, because it is difficult to keep these things separate, I would be willing to accept questions on the general issue of the effect on monetary control and so on.

Mr. LAFLAMME: Before you proceed, may I ask a supplementary question arising out of Mr. Clermont's last question.

You referred Mr. Rasminsky, to your telephone conversation of July 26th in which you stated that Mr. MacFadden telephoned to report on the developments related to the National City Bank's purchase of the shares of Mercantile Bank, and said further that the Minister did not wish them to proceed with the transaction but after serious consideration they had decided to go ahead. Was July 26th the first time that you heard from Mr. MacFadden or someone else from the Mercantile Bank that they wanted to go ahead with the deal?

Mr. RASMINSKY: That they had decided to go ahead with the deal, yes sir.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Rasminsky, in Mr. MacFadden's memo he more or less quoted you in two respects with regard to your attitude to the entry of the National City Bank. As I recall it, the first one was that you were afraid that this might open the door to other applications from American banks, and the second one was some misgivings, that you had with regard to the confidentiality of your conversations with the members of the Canadian banking fraternity. Mr. Rasminsky, could you enlarge a bit on that and give us some idea of the dangers that you see in a very large foreign bank coming into the Canadian banking system.

Mr. RASMINSKY: In reply to your question I will enlarge on both of these points, and perhaps mention some other matters that I raised as well.

I think, Mr. Cameron, that every country would regard the control of its credit policy—that is, of the policy which determines the cost and availability of credit—as an essential instrument of national economic policy, and one which should therefore remain in the hands of the domestic monetary authorities. This view, which I think is fairly widely held, is reflected in various ways in the legislation or the institutional practices of a good many countries, including many countries that are basically internationalist in their broad outlook. In the United States, for example, as you know, the banking institutions of the United States are divided into state chartered banks and national banks. All national banks are members of the Federal Reserve System. State banks can be members of the Federal Reserve System. Of the 51 States of the American Union—have I the number right?—I believe that I am right in saying that there are only 5, or, possibly, 6 states which permit foreign banking in any shape or form. In the case of national banks in the United States, banks such as the First National City Bank of New York, for example, the national bank law provides that no foreigner, no non-American, can be a director of a national bank. Other countries have provisions of other sorts which are designed to ensure that the banking system remains basically under the control of the domestic authorities.

Now, these are matters of degree. A small foreign bank certainly would not jeopardize monetary control, or monetary policy. A large number of small foreign banks might present a rather different problem. A few foreign banks operating in Canada on a very large scale, to constitute a very large fraction of the Canadian banking system, could present a problem again of quite a different sort. Now, it is considerations of that kind that I have in mind, and these considerations I mentioned in the initial conversation with Mr. MacFadden.

The second consideration that he refers to in his memo is also one which I did indeed raise. I said that one of the questions raised in my mind about their coming in, was what effect this might have on relations between the Bank of Canada and the chartered banks. In this respect there were two separate things that I was thinking of. One was the effect that this might have on the character of the meetings that take place between myself and the general managers and presidents of the chartered banks. This is really not a question of confidential information, because at these meetings I do not really give any confidential information. I could not do so, and make available confidential information to one section of the community and thereby treat them differently from others. But I had found that the contacts with the general managers and with the presidents of the banks did provide a useful opportunity for an informal exchange of views and information, which I think were helpful to the chartered banks and to me in the conduct of my duties. The question in my mind was what effect the presence of what might be regarded as a large American bank at these gatherings might have. This was the question in my mind.

While I am on that subject, I would like to say this, Mr. Cameron, that, as things have turned out, Mr. Stewart Clifford, the General Manager and Chief Executive Officer of the Mercantile Bank, has attended the meetings of the chief executive officers, as well as the meetings of the general managers, and I have not the slightest criticism to make of the way he has conducted himself in what

for him must have been a very difficult situation. I would like to make that perfectly clear.

The second thing that I had in mind about our relations with the Chartered Banks had reference to the possible use by the central bank of a technique which we refer to as moral suasion—I have occasionally heard it referred to as immoral suasion!

An hon. MEMBER: Arm-twisting.

Mr. RASMINSKY: Yes; or "ear stroking". In the period of my governorship of the bank, before the Mercantile incident, I have encountered situations where it seems to be in the national interest to ask the banks to conduct themselves along certain specific lines. It is not a technique of monetary policy that I like particularly; I would much rather operate impersonally, through the quantitative power, through the power that we have to vary the cash base; but, as I say, there have been two or three occasions on which I myself, in a fairly short period which included the exchange crisis of 1962, as you will recall, have found it useful to make specific requests of the banks, and in every case where I have done so the Canadian Banks have complied. Such requests can succeed only if there is universal compliance, because if any single bank refuses to comply its competitors are not going to stand by and let it get the business that they, the complying banks, are turning away.

I wonder whether a Canadian bank which is a wholly-owned subsidiary of an American bank would be in a position to comply with such requests? I raised this question with Mr. MacFadden in one or other of these conversations, and he assured me in, I am certain, absolute good faith, that the Citibank as most cooperative with the central bank in every country where it operated. It is not a question of the intention of the bank; it may be a question of American law; that the American anti-trust law has been interpreted in a way which has, in effect, prevented subsidiaries of American companies operating abroad from entering into agreements which, if entered into in the United States, might be regarded as being in violation of the anti-trust legislation. Therefore, these were the two points which were covered by 3(b) of Mr. MacFadden's memorandum.

To complete the substance of the questions that I raised with him, I was concerned at the possibility that the foreign funds control legislation of the United States might be given extra-territorial application in Canada, and affect the activities of Canadian banks. I am not a lawyer, and I am not giving a legal opinion here, but there have been some situations where it has appeared to me that that seemed to be happening; that is to say, where Canadian subsidiaries of American companies refused to be guided exclusively by Canadian law, and refused to carry out certain transactions in Canada which were perfectly legal under Canadian law, on the grounds that such transactions, if carried out in the United States, would be a breach of the foreign funds control regulations, and that their parent company might be subject to penalties under American law if they permitted their Canadian subsidiaries to carry out these transactions. To me it seemed an unsatisfactory situation to have a Canadian bank which was not able to carry out the whole range of banking transactions for Canadians, and I also expressed this view to Mr. MacFadden.

That completes the account of the substantive points that I raised with him.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you, Mr. Rasminsky.

I wonder if I may ask one concluding question? Have you given any thought to, and have you any views on, the possibility of foreign banks being permitted the type of agencies that Canadian banks now enjoy in some of the States of the Union.

Mr. RASMINSKY: Well, I know, Mr. Cameron, that this Committee has been requested by the Minister of Finance to consider that possibility. Before the Minister himself has decided what the policy of the government may be, and before the Committee has reached any conclusions, I would not wish to express any categorical view on the subject.

If it were helpful to the Committee I would be glad to try to outline what seem to me to be the pros and cons of this matter. I suppose that a very obvious pro, and a very obvious reason, for giving some sympathetic consideration to it is the fact that Canadian banks operate in a great many countries of the world, and it would seem, on the face of it, to be a rather odd situation that Canadian banks can operate in a great many countries of the world, but there is no means at all by which foreign banks can operate in Canada. Canadian banks operate not only in the United States, but in Paris, London, Dublin, Glasgow, the Netherlands, and Beirut; and, of course, they have very extensive branches in the Western Caribbean and in South America. That, I would think, is point number one on the pro side.

Secondly, I think it is probably the case that the presence in Canada of some foreign institutions might in some respects increase the competition between Canadian banks, which I conceive to be in itself a good thing, and might perhaps, improve, in some respects, the banking services available to Canadians. I do not know that there are any enormous gaps here, but there may be some contribution that agencies can make, particularly, I suppose, in transactions connected with the financing of foreign trade, and perhaps in foreign exchange markets. They might also, depending on how they operated, increase the competition in the making of loans in Canada. I think that those are the most important positive considerations.

On the other hand, I think it is quite likely that the establishment of agencies in Canada would increase the amount of banking business done by Canadians with the head offices of U.S. banks, particularly on a U.S. dollar basis. This, again, is a matter of degree, Mr. Cameron. At the present time, there being no exchange control or anything of that sort here, Canadian residents are perfectly free to do their banking business with the United States if they find it to their advantage to do so; and in fact, the large New York banks have travelling salesmen, so to speak, in Canada who go across the country, particularly looking for loans, on occasions when the United States banks have excess funds that they want to lend.

This is not a black and white matter. I think it is likely, however, that the establishment of an agency with one or more permanent offices in Canada would not only lead to increased agency business, which, in itself, so far as I am concerned, is more an advantage, but there would be, on the other side, the likelihood, I would guess, that more Canadian banking business would be done with non-resident banks in a non-resident currency; that is to say, in American

dollars. If that business got to be a very large fraction of the total banking business in Canada, this could present a problem for the monetary authorities.

Finally to the extent—and this is again on the negative side that the United States banking agencies, either for their own account or for account of their head office, became a large part of the business of banking in Canada, they would constitute an element that would be rather less subject to monetary control because of their ready access to outside funds, or to moral suasion when this was needed. Those seem to me to be the main considerations in connection with the problem of agencies.

The CHAIRMAN: Yes. The next name on my list is that of Mr. Wahn. Is this the subject matter that you had in mind?

Mr. WAHN: It does come close, Mr. Chairman.

The CHAIRMAN: I am quite prepared to recognize you now.

Mr. WAHN: Mr. Rasminsky, in Mr. MacFadden's memorandum there was a reference to the fact that a conversation was off the record. About 25 or 30 years ago a very wise man told me that no conversation is ever off the record. I have never had occasion to doubt the wisdom of that remark. I make reference to that because of what transpired on that particular occasion. I gather that there was some concern expressed that the confidential nature of your conversations with Canadian chartered banks might be adversely affected by the intrusion of a foreign owned bank. I can see quite clearly that where you have, in effect, rather an exclusive club consisting of representatives of the Bank of Canada and a very limited number of very large, powerful, responsible chartered banks, without having any legal control you can influence the action of the chartered banks along the lines that you think are desirable in the interests of the country. I can understand that this may have worked very well in the past.

The question I would like to put you is this: In light of the more competitive banking environment which everyone seems to feel is necessary in the future, we will not have just the seven or eight well-established banks, who are prepared to go along, but also some new and highly agressive competitors. Is it sufficient to rely upon this type of gentlemanly behaviour and club-like control, or would it not be better for either the Bank of Canada, or the government, to have authority to issue legally binding directives to the chartered banks when it is necessary in the interests of proper monetary or fiscal control?

Mr. RASMINSKY: May I answer your question without accepting all the accusation of being gentlemen?

In the first place, you refer to this as being exclusive. Of course, it is the case that all the banks are present, so that there is nothing exclusive about it within the banking system.

I have similar conversations with the trust companies' association and with the instalment finance companies. As I said to Mr. Gray, or as Mr. Gray said to me on the occasion of my previous appearance, my door is open to anybody who wants to talk to me; so that there is nothing exclusive about it in that sense.

The chartered banks are the instrument through which the monetary policy of the central bank is made effective. This arises out of the legal situation that they have to hold cash reserve requirements with the central bank. It has seemed to me to be desirable that the chartered banks should know, from time to time,

not what the central bank has in mind for the future—because probably you do not know yourself—out what the central bank had in mind, and how it looks at the situation that has passed.

The main reason for the meetings is not what the chartered banks get out of it but what the central bank gets out of it. It is important to us to have as up-to-date information as we can about business attitudes, about what he demand for bank credit is, and about the other things that the chartered bankers, with their far-flung branch system, see going on in the country; and these contacts have been grist to the mill; they have been one source of information which has been of value to the central bank and I would regret it if we gave them up.

We do not rely on this as a technique of carrying out monetary policy. We are carrying out monetary policy impersonally and quantitatively, by providing cash reserves to the commercial banking system. I think it is the case that most central banks do have contacts of this sort, some perhaps more developed than others, but it is certainly not an unusual circumstance that there should be regular meetings between the governor of the central bank and the chartered banks.

On your question about whether it would not be preferable to operate through the issue of directives, this may be a matter of individual attitude. One could come to a different conclusion about this. So far as I am concerned—so far as the central bank is concerned—I think that in our society, in a country which is organized in the way ours is, it is preferable to operate indirectly by providing a monetary atmosphere that will lead people, in the pursuit of their own self-interest, to take action which, broadly speaking, moves the economy in the direction in which you think it should be moving, and that we should avoid getting into the position of issuing specific directives.

That is not an inevitable conclusion, but that is the way in which it seems to me that we can best operate.

Mr. WAHN: Mr. Rasminsky, you said earlier that on several occasions you had found it necessary, despite the general control over monetary policy through these indirect methods that you mentioned, to ask the chartered banks voluntarily to comply with certain guidelines.

Mr. RASMINSKY: Yes.

Mr. WAHN: The other day the officials of Mercantile Bank referred also to the fact that the Mercantile Bank had complied voluntarily with guidelines to the same extent as had the other chartered banks. Do you, or the government, under the existing legislation, or under this proposed legislation, have the authority to make such voluntary guidelines mandatory?

Mr. RASMINSKY: No, sir; we do not.

Mr. WAHN: Do you think it would be desirable, for the new legislation that this Committee is considering, to give such authority either to the Bank of Canada or the government for the future, bearing in mind—

The CHAIRMAN: I wonder, Mr. Wahn, if you are not putting the governor in a difficult position? Up until now we have been rather cautious about asking officials in his capacity to make precise statements with regard to recommendations of policy. Although I myself may not be personally averse to having this

type of activity going on in committees I think that until the principle is more widely established we should make sure that we are not putting the governor in an awkward position.

Mr. WAHN: If it is a difficult question I will certainly withdraw it.

Mr. RASMINSKY: Now that the Chairman reminds me, I regard it as a difficult question.

Mr. WAHN: Mr. Rasminsky, the substantive question that this Committee is considering is, of course, how we can improve the Canadian banking system. If I ask any more difficult questions of that nature—

The CHAIRMAN: Mr. Wahn, I hesitate to interrupt again, but I wonder if we are being completely fair. Other members may feel that they are in a position at this time to ask questions related more generally to the issue of the relations between the Mercantile Bank, the government and the Bank of Canada, and to the broader area of the possible impact of foreign banking operations within Canada. I allowed your previous question because I could see its direct relevance. Could you assist me by telling me whether or not the other questions you are about to ask have as strong a link with the areas I have outlined?

Mr. WAHN: If they have not, Mr. Chairman, I hope you will tell me. Assuming that Mr. Rasminsky agreed that more competition was desirable, my next question was going to be whether he saw any great objection to permitting greater competition within the Canadian banking system through the intrusion of foreign branches of foreign banks, as distinct from Canadian chartered banks operating as subsidiaries of foreign banks? I believe Mr. Rasminsky dealt with agencies, and my question now is directed toward improving or increasing competition in the Canadian banking system through foreign branches.

Mr. RASMINSKY: Mr. Wahn, I am afraid I would have to know more about how foreign branches would operate; whether they would be subject to the Bank Act; whether there would be any limitation on their size or in the scope of their business; what the difference between foreign branches and foreign-owned banks incorporated under the Bank Act would be; and what would be the difference between branches and agencies. I am afraid that I cannot answer the question without knowing more about what foreign branches would be doing.

Broadly speaking, I would guess that the same sort of considerations that I have indicated I thought were relevant in the case of agencies would also apply to foreign branches. However, I am not sure of that, not knowing what the proposal would be.

Mr. WAHN: Would you feel that the existence on a fairly substantial basis of foreign branches in Canada might make monetary control more difficult?

Mr. RASMINSKY: The more substantial the basis the more difficult it would be.

Mr. WAHN: I have no other questions on this foreign aspect Mr. Chairman.

The CHAIRMAN: I now recognize Mr. Monteith.

Mr. MONTEITH: I have a different topic, too, Mr. Chairman; I am sorry.

The CHAIRMAN: I can see Mr. Davis, and then—

An hon. MEMBER: There is Mr. More here.

The CHAIRMAN: Yes, all right; I will recognize Mr. More instead; followed by Mr. Davis, Mr. Johnston and Mr. Munro.

Mr. MORE (*Regina City*): Mr. Rasminsky, I wonder if you could clarify something for one? I am wondering just exactly why the Mercantile, under its new owners, apparently creates more of a problem than it did in its previous operation?

Is it because the interpretation in the United States of certain of their laws as applying against wholly-owned subsidiaries in foreign countries is different from that of any other nation, and that there was no such law applicable to the Mercantile before it became a wholly-owned subsidiary of the First National City Bank?

Mr. RASMINSKY: Mr. More, perhaps I could answer that question, which was also put to me by Mr. MacFadden in one of these conversations, by referring to my notes on my conversations with him. I said to him, on June 20, that he should realize that the Citibank coming into Canada would cause much more of a stir than the original establishment of the Mercantile; that there were two reasons for this: First, that the Citibank coming in would be regarded as the harbinger of things to come; that people would think of this not in terms of a single American bank coming in, but would assume that the competitors of the Citibank in the United States would also certainly want to establish in Canada once the Citibank had done so.

Secondly, that people would consider that it was one thing to have a foreign-owned bank in Canada, when the owner was rather distant—a small Dutch bank—and another thing to have in Canada a bank the owner of which was a nearby, large, very enterprising and aggressive American institution.

I think those are the two points that would, in the mind of some people, at any rate, constitute a difference between the previous and present ownership of the Mercantile.

Mr. MORE (*Regina City*): The previous owner of the Mercantile you say was a small Dutch bank, not a large bank engaged in international operations?

Mr. RASMINSKY: Certainly, in Dutch terms, it was a large bank, and perhaps also in over-all terms; but it certainly was a more distant bank, with fewer connections in Canada and with very little in the way of commercial affiliations with Canada, because there are very few Dutch-owned companies in Canada. Therefore, I think that many people would regard that in a different light from ownership of the Mercantile Bank by one of the largest of the American banks. Mr. More, I would not want to be held to these figures, because they are given to me from memory by my colleague, Mr. Hebert, but his recollection is that the total assets of the previous owners of the Mercantile were about $1 billion compared with assets of about $16 billion of the Citibank.

Mr. MORE (*Regina City*): You feel that the opportunity for growth, then that is available to our neighbours to the south is largely because American companies operating in Canada would avail themselves of these services?

Mr. RASMINSKY: I said that that was an essential difference between ownership by a large American bank, and by the Dutch bank. I understand that, in fact, as the Mercantile has been operated up to the present, the great bulk of its business, in terms of numbers of accounts and the value of business, is not with

Canadian subsidiaries of American companies but with Canadians who are not subsidiaries of American companies.

Mr. MORE (*Regina City*): Then your original premise has not held in regard to the operation so far?

Mr. RASMINSKY: That is right, sir; yes.

Mr. MORE (*Regina City*): The other question I had was on the matter of confidentiality in meeting with the officials. You feel that the danger attaching to these meetings is much greater because it is an American subsidiary rather than the previous owners. Was there not the same danger there?

Mr. RASMINSKY: May I say, first of all, Mr. More, that the word "confidential" is not one that appears in my own memorandum—

Mr. MORE (*Regina City*): No; I see that it does in Mr. MacFadden's memorandum.

Mr. RASMINSKY: —of the conversation.

Mr. MORE (*Regina City*): It appears with regard to his meeting with Mr. Gordon; I believe that is where I saw it.

Mr. RASMINSKY: Yes. I am trying to see how I described this. May I read a paragraph from my full note of the meeting of June 20 dealing with this point. I said that the aspect of the thing which I, as governor of the central bank, would naturally be concerned with, would be the effect of their coming in on the operation of the financial system. As he knew, if he had read my evidence before the Royal Commission, I was in favour of competition, including competition within the banking system. I would also, of course, be concerned with the possible effects, on the relationship between the central bank and the chartered banks, of the introduction of one or more strong American banks into the system. These relations were now quite intimate. I saw the presidents and general managers quite frequently and talked with them informally. I regarded these conversations as valuable, and I would have to consider whether the character of the relationship would change if I had to feel that anything I said at these meetings which was regarded as being of particular interest was, quite properly, reported to the head office in New York.

I do not think it is a matter of confidentiality in the ordinary sense, Mr. More. It is what I thought at the time. It may be that in the light of experience I would attach somewhat less importance to this point now; but what I thought at the time was simply that even if you do not have guilty secrets, you do talk about your affairs a bit more frankly to members of your own family than you do in the presence of someone who is not a member of your own family.

Mr. MORE (*Regina City*): Mercantile has never been a member of our family, has it? They have been present, I take it, at previous meetings?

Mr. RASMINSKY: That is right; although these meetings had started only shortly before. When I became governor of the bank the main, formal contacts between the central bank and the chartered banks were through the attendance of the governor at quarterly meetings of the executive council of the Canadian Bankers' Association—

Mr. MORE (*Regina City*): Was that for the purposes of education?

Mr. RASMINSKY: Yes; the executive council of the Canadian Bankers' Association consists of the general managers of the banks. After a while it seemed to me desirable that the governor of the central bank should be meeting with the chief executive officers of the chartered banks, particularly since at the time the relations between the central bank and the chartered banks had been subjected to a certain amount of strain. Therefore I inaugurated the procedure of meeting three times a year with the chief executive officers of the institutions, and I think only two or three such meetings had been held at this time.

I think it is very useful to have these meetings on a routine basis, so that when occasion arises, when you really have to see the heads of the banks about something, it is not a crisis that brings you together; it is not regarded as a crisis. As a matter of fact I have had, quite fortuitously, two specific experiences of that. There happened to be a meeting in June 1962, and I think, as a matter of fact, that this was the first meeting of this type with the chartered banks; I think it was just after the exchange crisis had come to a head. It was very useful to have that scheduled meeting with them, which permitted me to make my first exercise in moral suasion; that is one of the occasions when I asked the banks to do certain things. The other occasion was in June of 1965, a couple of days after the Atlantic Acceptance affair, when there was a regular scheduled meeting; at that time I was able to talk to the banks and explain to them why I wanted them to behave in a certain way.

Mr. MORE (*Regina City*): Would it be in order to ask you if the Mercantile attended the meeting following the exchange crisis and, if so, as a result of their attendance you were not precluded from expressing your views in any way.

Mr. RASMINSKY: No sir. I do not know whether I have said this before—I meant to indicate it in the previous answer—but in respect of my meeting with the chief executive officers of the bank or my own meetings with the general managers of the banks, it has not been my experience that the presence of the representatives of the Mercantile has been a detriment, either before or after the acquisition of the stock by the Citibank, to the character of the discussions.

Mr. MORE (*Regina City*): I have just one more question. Am I right in my thought that there is now no possibility of any other chartered bank in Canada being taken over in this matter by foreign interests.

Mr. RASMINSKY: I do not know.

Mr. MORE (*Regina City*): Is there not some law, or it is not embodied in this—

Mr. RASMINSKY: There is a bill before this committee which would, as I understand it, limit the non-resident ownership of any bank to 25 per cent of the share capital.

Mr. MORE (*Regina City*): And this would preclude a take-over of this nature.

Mr. RASMINSKY: That is right.

Mr. MORE (*Regina City*): You spoke of your concern that this might start a stampede—perhaps that is not the right word, or might lead the way for more foreign bank operations in Canada; but if the present legislation passed, would this not be precluded also?

Mr. RASMINSKY: Yes, that concern was expressed, as you realize, in 1963 before this legislation—

Mr. MORE (*Regina City*): The present legislation would remove this concern; the opening would not be there unless we adopted some agency provision.

Mr. RASMINSKY: That is right.

Mr. MORE (*Regina City*): I think I am right in saying that the chartered banks, in their advice to us, indicated that they felt quite competent to compete in the banking field in Canada with a foreign bank operation, if you want to call it that. Do you disagree in any way with that? Do you think that they likely would be weakened through competition as a result of American subsidiary companies operating here?

Mr. RASMINSKY: No. None of the concern that I expressed to Mr. MacFadden or none of the considerations that I expressed here this evening are at all related to the competitive position of the Canadian banks.

The CHAIRMAN: I recognize Mr. Davis.

Mr. DAVIS: Mr. Rasminsky, looking ahead and assuming the Bank Act in its present draft form becomes law, I am still concerned about the degree of control that Citibank, for example, would have over the Mercantile Bank. Assuming it wanted to grow, it would own 25 per cent of the stock. What percentage of the stock of any chartered bank is necessary in the hands of one group in order to control its policy? The Bank Act as it is now drafted would limit all other banks in Canada, as I understand, to a maximum of 10 per cent. In this particular case there could be as much as 25 per cent concentration in the hands of one group—let us assume the Citibank of New York; can the Citibank of New York still control the policy of the Mercantile Bank and of course grow, under the Act as revised; and are we still up against many of the same problems you mentioned earlier this evening.

Mr. RASMINSKY: There are so many problems to worry about, Mr. Davis, that worrying about the situation that will prevail when the stockholdings of the Citibank are reduced to 25 per cent, seems a somewhat remote problem.

Mr. DAVIS: I would still like to get your comment on the degree of concentration. What is the maximum concentration of any one bank in Canada today? I think it is less than 10 per cent.

Mr. RASMINSKY: It is certainly less than 10 per cent, but I have no specific information on that Mr. Davis. I imagine the Inspector General would have the answer to that question, but I do know that it is substantially less than 10 per cent. If the shareholdings of the Citibank in the Mercantile are 25 per cent, and the maximum shareholdings of anyone else are 10 per cent or less, I do not think there is any doubt that Citibank will exercise a very important influence in the conduct of the affairs of the Mercantile. That is apparently contemplated in the legislation.

The CHAIRMAN: I recognize Mr. Johnston, followed by Mr. Munro.

Mr. JOHNSTON: Mr. Chairman, on reading Mr. MacFadden's memorandum the last day, it seemed to me that reasons (a) and (b) were perhaps somewhat speculative and that it is just possible that Citibank had not given them too

much weight. Listening to Mr. Rasminsky's explanation this evening, it seems to me they have become in a way increasingly speculative.

I wonder, Mr. Rasminsky, if you had any comment on item two of Mr. MacFadden's memorandum where he said he strongly recommended that going the route of the Mercantile was easier for them, but did not back away from a charter application on their own.

The CHAIRMAN: Have you concluded your question, Mr. Johnston?

Mr. JOHNSTON: I was wondering about the idea expressed there. Did you feel at the time that it would be possible for Citibank to ignore Mercantile and simply apply for a charter to operate a bank in Canada.

Mr. RASMINSKY: My own notes do not cover this point, Mr. Johnston. As I indicated before, I told Mr. MacFadden that it was, in my opinion, not certain—by no means certain that if Citibank applied for a charter they would be successful in getting one. It therefore followed from that, I suppose, that the only method they had of owning a bank in Canada was to acquire an existing bank.

Mr. JOHNSTON: Would this not then virtually invalidate (a) of the two points that were mentioned later on, which you spent some time on, knowing the recent history of the attempt on the part of the Bank of British Columbia, for example, to obtain a charter. You have referred to a few on a very large scale coming in. Did you feel it a possibility even that applications by a few large American banks would have any chance of being accepted.

Mr. RASMINSKY: No, I would feel the same way. The view that I just expressed was not specific to the Citibank; it was general. I thought it would be likely that if the Citibank acquired the Mercantile, this would increase the desire of the Citibank's competitors in the United States to come into Canada and that it would increase the pressure from others to apply for charters here.

Mr. JOHNSTON: In a way I still cannot see the problem that would arise. Would you feel it too embarrassing to Canada to keep rejecting these applications as they came up. How would this constitute a problem?

Mr. RASMINSKY: Yes, I think it would be a problem to keep rejecting applications of American banking institutions for charters here.

The CHAIRMAN: Do you have a supplementary question, Mr. Laflamme, if Mr. Johnston would yield.

Mr. JOHNSTON: I am finished.

The CHAIRMAN: I will accept the supplementary question of Mr. Laflamme. Then we have Mr. Munro.

Mr. LAFLAMME: Mr. Rasminsky, have you heard of any reason for the Dutch people deciding to sell their bank to the Citibank?

Mr. RASMINSKY: I imagine that they may have better use for their money.

Mr. LAFLAMME: You did not hear anything about that before?

Mr. RASMINSKY: No.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary question?

The CHAIRMAN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): My supplementary, Mr. Rasminsky, is in respect of the questions asked by Mr. More. Why did you have a different attitude towards the Mercantile when it was in the hands of the Dutch interest and when it became a subsidiary of the National City Bank. Did you have in mind, not so much the relative size of the banks, as the relative size of the economies in which they were established, the fact that one was established in a rather small nation with a rather modest sized economy and the other one based in the largest and most powerful economy in the world, which already has many branches in Canada.

Mr. RASMINSKY: That was probably a consideration in my mind, Mr. Cameron. I would like to make it clear that I was not then urging Mr. MacFadden not to come in here; the urging consisted of urging him to see the Minister of Finance before he came in here. I felt that their coming in here would create quite a stir, and I was anxious that they should realize that at the beginning and not be confronted with an unpleasant situation later. For that reason I raised the problems. I told them quite frankly in the conversation of the problems that would be raised in my mind by their coming and as I say, I urged them to go to see the Minister of Finance to make sure that they knew where they stood.

Mr. MUNRO: Mr. Rasminsky, were you aware at any time during this period in 1963 or 1962 of American interests indicating a desire to buy out or to buy a substantial portion of the shares of any of our chartered banks.

Mr. RASMINSKY: Not in any concrete way, Mr. Munro. I cannot be specific about this because it was never sufficiently documented to really get down to cases on it, but I did hear market rumours from time to time that one or another American bank was interested in acquiring interests in the banking field in Canada.

Mr. MUNRO: Did the fact that this possibility might become a reality concern you at all.

Mr. RASMINSKY: Did this concern me? I do not recall taking these reports seriously enough to have focused on the question, Mr. Munro, until June 20, 1963.

Mr. MUNRO: And the fact that American interests indicated an interest in the Mercantile gave some credence to the possibility that they might be interested in other areas?

Mr. RASMINSKY: I am sorry, I did not hear your question.

Mr. MUNRO: The fact that they were interested in the Mercantile Bank lent more weight to the possibility that they might be interested in acquiring shares in other of our chartered banks. Is this the feeling you had?

Mr. RASMINSKY: Do you mean that other banks would acquire shares in our chartered banks?

Mr. MUNRO: Yes.

Mr. RASMINSKY: As I have just said in reply to Mr. Johnston, I felt that once the Citibank acquired an interest in Canada this would result in an increase in the interests of other banks and that, therefore, it was difficult to look at the Citibank-Mercantile situation as an isolated case.

Mr. MUNRO: And although you had not given it too much serious consideration, you had heard that American interests were interested in other of our chartered banks in terms of acquisition of shares?

Mr. RASMINSKY: Yes, in a very vague sort of way, Mr. Munro; not in the way that led me to take it seriously.

Mr. MUNRO: If Americans were allowed to move into one of our banking institutions such as the Mercantile or others in an unlimited fashion, without the limitations that are now being considered, what would be your feelings about the possibility of subsidiaries of American corporations in Canada dealing with that particular bank?

Mr. RASMINSKY: That is a very "iffy" sort of question, Mr. Munro. I would imagine that American corporations operating in Canada, like others, would deal with whatever bank they can make the best arrangements with.

Mr. MUNRO: Is it reasonable to assume that there would be certain advantages to subsidiaries of American corporations dealing with banks in Canada in which Americans had a substantial or controlling interest?

Mr. RASMINSKY: I think it is probably reasonable to assume, other things being equal, that if an American corporation has a business in Canada and deals with bank "X" in the United States, and bank "X" has a subsidiary bank in Canada, there probably would be an inclination to direct the Canadian company's banking business to the subsidiary of the American bank. But, of course, the Canadian subsidiary bank has to be in a position to handle the business, and being in a position to handle the business means that it has to be able to offer services which are competitive in price and of corresponding quality—superior quality—to the services of Canadian banks. And it also means that they have to be financially equal; they have to have the resources to offer to handle the business. I think that one would start perhaps with some disposition on the part of subsidiaries to deal with the same bank, so to speak, as their parent company deals with, other things being equal.

If I can just add this, Mr. Munro, I did say in reply to a previous question—or I volunteered this information—that I do not think that that has happened on any substantial scale in the case of the Mercantile. I understand that the great bulk of their business, both by number of accounts and in terms of the value of business in Canada is, in fact, not with subsidiaries of American companies.

Mr. MUNRO: In terms of Mercantile's present position am I correct that it cannot be used as a guide to what the future would be in that connection—that is, in terms of its nebulous position at the moment? Do you feel that because of this inclination that you talk about, Mercantile could hardly be an example of the fact that this could not take place?

Mr. RASMINSKY: Are you asking me a question?

Mr. MUNRO: Yes.

Mr. RASMINSKY: What is the question?

Mr. MUNRO: My question is: In view of Mercantile's nebulous position at the moment, it is hard to use it as an example to prove that this type of possibility could not occur, namely that subsidiaries of American corporations would not

have the inclination to deal with a bank in which American interests had substantial ownership.

Mr. RASMINSKY: I still regard that as an assertion, not a question.

Mr. MORE (*Regina City*): I have a supplementary, Mr. Munro, if you will permit it. Mr. Rasminsky, you answered my question previously, but could I ask you this: In the light of the operation of the Mercantile since its take over and the answer you gave, are you still fearful that if they were allowed unlimited growth this would occur? Do you have any opinion on that?

Mr. RASMINSKY: I think you are now getting into the area of the governmental policy with regard to this, which I really do not think I should be asked questions about.

Mr. MUNRO: Suffice to say that I believe, without putting words in your mouth, that you did indicate that there might be an inclination in this direction. In your summary of your dealings with the National City Bank people, I note that you say in your memorandum of June 20;

> I strongly urged them to see the Minister of Finance and hear his views before concluding their negotiations with the Mercantile.

Some emphasis was lent to the point that Canadian laws, as distinct from governmental policy, did not prevent the acquisition of this bank by the Citibank people. When you voiced this comment to the National City people were you concerned that you did not have any statutory authority, in a narrow sense, to offer this comment?

Mr. RASMINSKY: No, I was not, Mr. Munro. I thought that this was a friendly piece of advice I was giving to the Citibank.

(*Translation*)

Mr. GRÉGOIRE: Mr. Rasminsky, between your conversation of the 20th of June by telephone and the 18th of July, the day of the meeting with Mr. Rockefeller and Mr. MacFadden with the Minister of Finance, did you have an opportunity to meet the Minister of Finance?

Mr. RASMINSKY: Yes, I did.

Mr. GRÉGOIRE: And speak to him of this question in between these two periods?

Mr. RASMINSKY: Yes, certainly.

Mr. GRÉGOIRE: Before Mr. Rockefeller came to see you, the Minister of Finance was already aware of the question?

Mr. RASMINSKY: Yes.

Mr. GRÉGOIRE: Did you remember having said to the Minister of Finance that the First National City Bank would definitely not conclude its agreement without seeing him?

Mr. RASMINSKY: Yes, I gave him an account of my conversations with Mr. MacFadden.

Mr. GRÉGOIRE: Then Mr. Gordon, the Minister of Finance was able to say: "Until they have met me there nothing will be definitely settled".

Mr. RASMINSKY: I cannot reply for the Minister.

Mr. GRÉGOIRE: But following your conversation with him, before the 18th of July?

Mr. RASMINSKY: Yes, I let the Minister of Finance understand that Mr. MacFadden had told me that he had accepted my advice not to undertake anything definite along these lines without having seen the Minister of Finance beforehand.

(*English*)

Mr. MUNRO: Despite the fact that you could not offer any statutory authority for limiting the Mercantile Bank people, you were certainly, both in your conversation of June 20 and July 2, quite emphatic that before the Mercantile people proceeded with their proposed transaction they should consult with the Minister of Finance?

Mr. RASMINSKY: I strongly urged them to do so. That is right, Mr. Munro.

Mr. MUNRO: You assumed, therefore, that despite the absence of any precise wording in a statute, the attitude of the Canadian government on such a proposal would be quite a cogent consideration so far as the acquisition of any bank by foreign interests is concerned?

Mr. RASMINSKY: Yes, I think that that is a clear statement, Mr. Munro.

Mr. MUNRO: And that as early as July 2 you had been advised the deal was firm subject to the approval of the respective boards of directors of the two contracting parties?

Mr. RASMINSKY: To what date do you refer?

Mr. MUNRO: July 2.

Mr. RASMINSKY: Yes, that is right. You say that the deal was firm. The words that were actually used are the words noted in my memorandum, "we have a deal".

Mr. MUNRO: They had a deal.

Mr. RASMINSKY: Subject to the approval of the respective boards of directors.

Mr. MORE (*Regina City*): In other words, Mr. Rasminsky, you felt it was an option; the deal had been concluded but it was more or less an option that could be proceeded with or not after conversations with the Minister of Finance.

Mr. RASMINSKY: I think that that is probably what went through my mind at the time.

Mr. MUNRO: Did you assume that before they completed the deal they would see the Minister of Finance on July 18?

Mr. RASMINSKY: Yes. Mr. MacFadden requested the appointment. He asked me on July 2 to make arrangements for him to see the Minister of Finance on July 18, and my own office record indicates that I saw the Minister of Finance at ten minutes to nine on July 3, and that I telephoned Mr. MacFadden at 11.30 in the morning of July 3. Now I assume, although I have no written record, that the Minister of Finance agreed to see Mr. MacFadden on July 18, and that I communicated that information to him on July 3.

Mr. GRÉGOIRE: Mr. Rasminsky, did you phone Mr. MacFadden on July 3rd to advise him that the meeting would take place on July 18th?

Mr. RASMINSKY: Mr. Grégoire, I think that that is what happened. I must say that I have a record of a telephone call that I made to Mr. MacFadden on July 3rd at 11.30 in the morning. I do not have a clear recollection of what I said to him at that time, but on that same date I sent a memorandum to the Minister of Finance referring to the arrangement made to see Mr. MacFadden and Mr. Rockefeller on July 18th.

Mr. GRÉGOIRE: Mr. Chairman, would my memory be correct in recalling that Mr. MacFadden told this Committee that he heard for the first time about that meeting with the Minister of Finance on the 18th, on the 16th of July.

The CHAIRMAN: I think it would be useful if at this time I referred to a Canadian Press report dated New York which appears to report on a statement given by Mr. Robert MacFadden as a result of his memorandum of the meeting with the Governor having been tabled before this Committee. In the second column of this report—

Mr. GRÉGOIRE: Mr. Chairman, what is in the paper is not evidence. We should get the evidence.

The CHAIRMAN: I think that what I am doing will be helpful both to yourself and—

Mr. GRÉGOIRE: No. That is just a newspaper report and it is not evidence. I think that we should have the record by tomorrow.

The CHAIRMAN: Well, that is quite so, but for the time being perhaps I may read this quotation and the weight given to it can be taken with respect to the source—I mean the press source, and the source in general. As I say, it is a Canadian Press report and it reads—and this is not in quotations:

> MacFadden said Citibank did, in fact, have a meeting with Gordon before signing closing documents. It had been impossible to inform him in advance of the actual reaching of agreement, because the deal advanced very quickly in Rotterdam.

In the next paragraph, again not in quotations:

> Citibank and the Dutch owners reached agreement on June 26th. Citibank's negotiators returned from Holland in a few days and a week-end intervened. But on Monday, July 2nd, Citibank representatives phoned Rasminsky, MacFadden said; he went on—

and the part I am reading now is in quotation marks:—

> We told him of the deal and said that James S. Rockefeller, head of the National Citibank, and I would like to see him. Mr. Rasminsky said he was going on holidays and to get in touch with him again.
>
> On July 16th Mr. Rasminsky was still unable to give us an appointment but made one for us to see Mr. Gordon on July 18th and that meeting took place.

I would gather, Mr. Rasminsky, as you have already told us earlier in this meeting, that Mr. MacFadden had told you in his telephone conversation of July 2nd that he and Mr. Rockefeller were proposing to come here on July 18th

if this was satisfactory. In other words, this date was mentioned by them in their conversation with you on July 2nd.

Mr. RASMINSKY: Right.

The CHAIRMAN: I gather from what you just told us now that you apparently were able to give some confirmation of this appointment on July 3rd. Would that appear to be the case.

Mr. RASMINSKY: Yes, I was, I must say, surprised when I read that report; of course, I do not know whether Mr. MacFadden said the words that are attributed to him in the report. The fact is, as I have already indicated to the Committee and as my note made on July 2nd shows, that the opening paragraph of my note of July 2nd as quoted reads this way:

> MacFadden phoned this afternoon and said that they now had a deal to buy the shares of the Mercantile subject to the approval of both Boards. I said that I assumed that before completing the deal MacFadden planned to see the Minister of Finance, and he replied in the affirmative, saying that he and Rockefeller were proposing to come here on July 18th if this was satisfactory.

The last paragraph of my note of the conversation of July 2nd reads:

> MacFadden thanked me for telling him frankly the questions that were in my mind and said it gave them something that they would have to think about. I undertook to let him know whether the July 18th date would be a satisfactory one.

Well now, being surprised at the statement in this memo—

The CHAIRMAN: You mean the press report.

Mr. RASMINSKY: —I mean the press report—I had my secretary look at the office record and I find as I have said that at ten minutes to nine on July 3rd I went to see the Minister of Finance and at 9.30 I spoke to Mr. Bryce and at 11.55 in the morning I called MacFadden and spoke to him. As I say, I have no distinct recollection at the present time of what I said to him but I think it is a fair—

Mr. GRÉGOIRE: You reconfirmed that visit to the Minister of Finance on the 18th of July by phone to Mr. MacFadden.

Mr. RASMINSKY: I think I must have done so.

Mr. GRÉGOIRE: Could you check to see if you made a phone call.

Mr. RASMINSKY: I have told you Mr. Grégoire, that I phoned MacFadden at 11.55 on July 3rd.

Mr. GRÉGOIRE: But, did you phone him again on July 16th.

Mr. RASMINSKY: No—if I may complete the record on this point: in a memorandum which I wrote to the Minister of Finance on July 3rd, which I certainly do not intend to quote in full,—and I hope the Committee will not ask me to table it—this sentence occurs in the introductory paragraph summarizing the sequence:

> I reminded him of this yesterday, (him is MacFadden in this context) and an appointment has been arranged for Mr. James Stillman Rockefeller, the Chairman and Chief Executive Officer of the bank and MacFadden to see the Minister of Finance on July 18th.

The CHAIRMAN: That is dated when?

Mr. RASMINSKY: That is dated July 3rd. So I assume that this memorandum was written after the telephone conversation with Mr. MacFadden.
As for going away on holidays—

The CHAIRMAN: Perhaps you could clarify that for us.

Mr. RASMINSKY: Yes. I yield to no one in my desire to go away on holidays. But, unfortunately, I was in Ottawa continuously from July 2nd until Friday, July 12th, and I had—again I see from my office records—a very considerable number of business engagements extending over this period and a disconcerting number of social engagements extending over the same period. On July 12th I did go away on holidays and on July 16th I was about 800 miles from here fishing for salmon in a river off the Saguenay. The last thing in the world that I had in mind was making any telephone calls to—

Mr. GRÉGOIRE: Mr. MacFadden was not with you on this fishing trip.

Mr. RASMINSKY: No, he was not.

The CHAIRMAN: The point is, Mr. Rasminsky, you were available until the 12th of July in Ottawa if they had attempted to seek you out.

Mr. RASMINSKY: Yes, indeed.

The CHAIRMAN: I wonder, gentlemen, in fairness to Mr. Munro, if we might not allow him to complete his period of questioning and, unless there is a suggestion from the Committee that we try to go on a little longer this evening —I see there is a consensus in the broadest sense of the term that we do not go on. However, in fairness to Mr. Munro, I think perhaps we might allow him to finish his period of questions.

Mr. MUNRO: As early as July 2nd, you inquired of Mr. MacFadden as to whether he was aware of the duties of the Minister of Finance regarding foreign ownership and particularly control of Canadian chartered banks and you read him a portion of the Royal Commission on Canada's Economic Prospects. You did this by telephone. When you wondered about this—that is, as far as Mr. MacFadden's knowledge of the opinion of the Minister of Finance in this area—what did Mr. MacFadden say? Did he indicate that he had any knowledge whatsoever of the feeling of the Minister of Finance on this question?

Mr. RASMINSKY: Yes. This is the relevant portion of the note that I made at the time:

> I said that I attached great importance to him talking to the Minister of Finance before making a final commitment. I wondered whether they were aware of the views that the Minister of Finance had expressed regarding foreign ownership and control of Canadian chartered banks in the Preliminary Report of the Royal Commission on Canada's Economic Prospects. I read him the full text of Paragraph 20 on Page 93 of this Report.
>
> MacFadden says that they were generally aware of these views and that he thought the basis of them was the attempt at take-over of the (and my note contains the name of an insurance company which I would just as soon not read unless you particularly want me to) such and such

and some other insurance company. I pointed out that the paragraph referred to chartered banks as well as life insurance companies. MacFadden said that all they were proposing to do was take over a bank that was already owned by non-residents. I said that this was the case but that they should be aware that this action would create much more of a stir than the original granting of a charter to the Mercantile had created.

Mr. MUNRO: I noticed you quoted Mr. MacFadden as saying "they". You would not know who he included in "they".

Mr. RASMINSKY: By "they" I meant the officers of the First National City Bank of New York.

Mr. MUNRO: So this Committee can only assume, when Mr. Rockefeller says that as late as July 26th he did not know about this, that Mr. MacFadden had not communicated with Mr. Rockefeller.

Mr. RASMINSKY: He could not have said that, Mr. Munro. On July 26th? He had already seen the Minister on July 18th.

Mr. MUNRO: I am sorry, July 18th.

The CHAIRMAN: Do you usually meet with bank clerks?

Mr. MUNRO: I note too in conclusion, Mr Chairman, that in your memorandum you go back to July 26th; Mr. MacFadden tells you that the Minister of Finance at his meeting on July 18th presumably was fairly tough, indicating to them that he did not wish them to proceed with the transaction but that after serious consideration they had decided to go ahead. Did you take from this conversation on July 26th that the deal was firm or that they had decided as of that time to go ahead despite the conversation with the Minister of Finance.

Mr. RASMINSKY: I am sorry; you have me confused as to the dates you are referring to.

Mr. MUNRO: I am quoting here your conversation with Mr. MacFadden on July 26th and you state that Mr. MacFadden said that after serious consideration they decided to go ahead despite the very tough conversation that they had had with the Minister of Finance. Did you take from that conversation that the deal was not absolutely firm and legally binding but that they decided to go ahead and make it binding?

Mr. RASMINSKY: Mr. Munro, I honestly cannot remember the thoughts that went through my mind on this particular point three and a half years ago. Taking two things together, first, their undertaking to me not to firm up the deal until they had seen the Minister of Finance and, second, the statement that having seen the Minister of Finance and knowing that he did not wish them to proceed with the transaction, after serious consideration they had decided to go ahead—I must have taken it that the decision to go ahead was made after they had seen the Minister of Finance on July 18.

Mr. MUNRO: I take it that the concluding part is your own quotation: they had done this and decided to go ahead?

Mr. RASMINSKY: Yes. That is rather inelegant; they had given the matter serious consideration and had decided to go ahead.

The CHAIRMAN: Mr. Munro, if I may interrupt before any more time elapses, I think we should have a formal motion that the document produced by Mr. Rasminsky headed "Bank of Canada" and dated January 30, 1967 and having to do with extracts from Bank of Canada record, made at the time, of conversations between L. Rasminsky and R. P. MacFadden of First National City Bank of New York regarding consultations with the Minister of Finance with respect to the acquisition of Mercantile Bank, be made a formal part of our record. I would invite a motion.

Mr. CLERMONT: I so move.

Mr. DAVIS: I second the motion.

Motion agreed to.

Mr. MONTEITH: Mr. Chairman, before you adjourn may I ask if the record for January 24 is going to be available tomorrow.

The CHAIRMAN: Yes, it is available. We just have the verbatim transcript which is not edited in any way and has not as yet been fully translated.

Mr. MONTEITH: But we could refer to any previous reference to this July 16th date?

The CHAIRMAN: Oh, I would think so, certainly. The Clerk, at my request, was kind enough to hurry along the transcription staff, and I hope that this will become a precedent; we actually had the transcript less than two or three weeks after the event. Let us hope that this is a hopeful omen.

Mr. MUNRO: Perhaps these records will correct my faulty recollection of the dates. I do believe Mr. Rockefeller stated that he was not aware of the views of the Minister of Finance with respect to foreign ownership and control of our banks until his meeting on July 18. If I am correct in that, Mr. Chairman, I can only assume that the conversation between Mr. Rasminsky and Mr. MacFadden on July 2nd was never communicated to Mr. Rockefeller.

The CHAIRMAN: Well I do not think that it would be fair to ask the Governor to assist you in making that assumption because he would be so remote from the event, unless he feels he can.

Mr. MUNRO: But at no time, I take it, did you have any personal conversations with Mr. Rockefeller; it was always with Mr. MacFadden.

Mr. RASMINSKY: No, I have not had any personal conversations on this subject with Mr. Rockefeller.

The CHAIRMAN: You have answered my own previous question as far as the Governor usually speaking to bank clerks is concerned.

I declare our meeting adjourned until tomorrow morning at 11 o'clock, at which time the Vice-Chairman, Mr. Laflamme will be in the Chair.

APPENDIX "PP"

BANK OF CANADA

January 30, 1967

Extracts from Bank of Canada record, made at the time, of conversations between L. Rasminsky and R. P. MacFadden of First National City Bank of New York regarding consultations with Minister of Finance with respect to acquisition of Mercantile Bank:

1. *Conversation of June 20, 1963*

. . . . . .

"MacFadden indicated that if the Minister of Finance or I expressed very strong views against their coming in, the bank would certainly reconsider their decision. I said that the administration of the Bank Act was a matter for the Government and not the central bank and I strongly urged them to see the Minister of Finance and hear his views before concluding their negotiations with the Mercantile."

. . . . . .

"He (MacFadden) said he had intended to speak to the Minister of Finance at the same time as he spoke to me but as he was involved in the Budget Debate it was clearly impossible to see him. I urged him not to push the matter to a conclusion with the Mercantile before seeing the Minister of Finance, and he undertook that they would not do so."

2. *Telephone conversation of July 2, 1963*

"MacFadden phoned this afternoon and said that they now had a deal to buy the shares of the Mercantile subject to the approval of both boards. I said that I assumed that before completing the deal MacFadden planned to see the Minister of Finance, and he replied in the affirmative, saying that he and Rockefeller were proposing to come here on July 18th if this was satisfactory.

I said that I attached great importance to him talking to the Minister of Finance before making a final commitment. I wondered whether they were aware of the views that the Minister of Finance had expressed regarding foreign ownership and control of Canadian chartered banks in the Preliminary Report of the Royal Commission on Canada's Economic Prospects. I read him the full text of Paragraph 20 on Page 93 of this Report."

. . . . . .

3. *Telephone conversation of July 26, 1963*

"Mr. MacFadden telephoned to report on developments related to the National City's purchase of the shares of the Mercantile Bank. He said

that the Minister of Finance had been fairly tough in indicating to them that he did not wish them to proceed with the transaction but that after serious consideration they had decided to go ahead. They were arranging to see the Minister again on Monday."

. . . . . .

"Mr. Rasminsky reminded Mr. MacFadden of his remark at the earlier meeting in Bank of Canada that they would want to have the approval of the authorities before going ahead. Mr. MacFadden said that this had meant they would only go ahead without that approval after very serious consideration. They had done this and decided to go ahead."

. . . . . .

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 41

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TUESDAY, JANUARY 31, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.

Bill C-222, An Act respecting Banks and Banking.

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Representing the Bank of Canada: Mr. Louis Rasminsky, Governor. *Representing The Canadian Bankers' Association:* Messrs. S. T. Paton, President; Léo Lavoie, Vice-President; J. H. Coleman, Vice-President; W. T. G. Hackett, Chairman, CBA Bank Act Revision Committee; J. F. Duffy; R. M. MacIntosh; G. R. Sharwood; René Leclerc.
And also: Miss M. R. Prentis, Research Assistant to the Committee.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25639—1

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Chrétien,
Clermont,
Coates,
Comtois,
Davis,
Flemming,
Fulton,
Gilbert,
Irvine,
Johnston,
Lambert,
Latulippe,
Lind,
Macaluso,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Dorothy F. Ballantine.
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, January 31, 1967.
(82)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.05 a.m. this day, the Vice-Chairman, Mr. Laflamme, presiding.

Member present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Davis, Flemming, Fulton, Gilbert, Irvine, Johnston, Laflamme, Lambert, Latulippe, Monteith, More (*Regina City*), Wahn—(14).

Also present: Mr. Grégoire.

In attendance: Representing the Bank of Canada: Messrs. Louis Rasminsky, Governor; J. R. Beattie, Deputy Governor; L. Hebert, Deputy Governor; G. K. Bouey, Adviser; R. Johnstone, Deputy Chief, Research Department. *And also:* Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation and the witness, Mr. Rasminsky, was questioned.

The questioning continuing, the witnesses were allowed to retire, subject to recall.

At 1.05 p.m. the Committee adjourned until 3.45 p.m. this day.

AFTERNOON SITTING
(83)

The Committee resumed at 3.50 p.m., the Vice-Chairman, Mr. Laflamme, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Irvine, Johnston, Laflamme, Lambert, Latulippe, Monteith, More (*Regina City*), Wahn—(11).

Also present: Mr. Grégoire.

In attendance: Messrs. S. T. Paton, President, The Canadian Bankers' Association and Vice-President and Chief General Manager, The Toronto-Dominion Bank; Léo Lavoie, Vice-President, The Canadian Bankers' Association and Vice-President and General Manager, La Banque Provinciale du Canada; J. H. Coleman, Vice-President, The Canadian Bankers' Association and Chief General Manager, The Royal Bank of Canada; W. T. G. Hackett, Chairman of Canadian Bankers' Association Bank Act Revision Committee and General Manager (Investments), Bank of Montreal; Jean Machabée, Assistant General Manager, La Banque Provinciale du Canada; J. F. Duffy, Superintendent, Canadian-Imperial

25639—1½

Bank of Commerce; R. M. MacIntosh, Joint General Manager, Bank of Nova Scotia; G. R. Sharwood, Deputy Chief General Manager, Canadian-Imperial Bank of Commerce; René Leclerc, General Manager, La Banque Canadienne Nationale; Gilles Mercure, Assistant General Manager, La Banque Provinciale du Canada; F. L. Rogers, Chairman, Canadian Bankers' Association Economists Committee and Economic Adviser, The Bank of Nova Scotia; J. H. Perry, Executive Director, The Canadian Bankers' Association; and Miss M. R. Prentis, research assistant.

Messrs. Paton, Coleman and Duffy were questioned.

During his testimony Mr. Paton referred to a memorandum prepared by Miss Prentis for Mr. Clermont on the subject of Bank service charges (*See Appendix T, Issue No. 29*) and tabled copies of a memorandum on the same subject addressed to the Chairman.

On motion of Mr. Clermont, seconded by Mr. Lambert,

Resolved,—That the memorandum tabled by Mr. Paton be distributed to members of the Committee and included in this day's Minutes of Proceedings and Evidence. (*See Appendix QQ*)

With the consent of the Committee, Miss Prentis commented on the Canadian Bankers' Association memorandum.

In the course of questioning on the subject of clearing houses, Mr. Paton tabled a chart entitled *Comparison of Some of the Principal Charges Made to Near Banks* which, on direction of the Committee, is attached hereto as *Appendix RR*.

The questioning continuing, at 5.55 p.m. the Committee adjourned until 8.00 p.m. this day.

EVENING SITTING
(84)

The Committee resumed at 8.12 p.m., the Vice-Chairman, Mr. Laflamme, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Flemming, Fulton, Gray, Johnston, Laflamme, Latulippe, Monteith, Wahn—(10).

Also present: Mr. Grégoire and Mr. Saltsman.

In attendance: The same as at the morning sitting and Messrs. C. F. Elderkin, Special Adviser, Department of Finance, and Denis Baribeau, research assistant.

Questioning of the witnesses was continued.

At 9.35 p.m. the Chairman, Mr. Gray, took the Chair.

The questioning having been concluded, the Chairman thanked the witnesses for their contribution to the deliberations of the Committee. The witnesses then withdrew.

At 10.35 p.m. the Committee adjourned until 11.00 a.m., Thursday, February 2, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, January 31, 1967.

The VICE-CHAIRMAN: Gentlemen, may I call the meeting to order?

I would invite the honourable members to indicate to me their intention to ask questions. The first one I see is Mr. Lambert.

Mr. LAMBERT: Mr. Rasminsky. I am not interested in the "Yes, you did—No, you did not" aspect of the whole of the Mercantile transaction. I think that has consisted of a lot of idle chatter, in many instances. I am more concerned about the long-range implications of the government's proposal, and the future possibility of a money market in Canada.

Do you feel that legislation of this kind, which inhibits the entry into Canada of foreign banking interests on their own, will not effectively preclude the creation of a money market in, say, Toronto or Montreal?

Mr. RASMINSKY: Mr. Lambert, this legislation is, of course, government policy and I am sure that you would not expect me to comment on, or to criticize or even to support, government policy in a field which is not the responsibility of the Bank of Canada.

Mr. LAMBERT: That is a reasonable answer on that point.

Mr. RASMINSKY: You ask whether it is my opinion that legislation of this type will inhibit the creation of a money market in Toronto or Montreal. The implication of that question would appear to be that there is not a money market in Toronto or Montreal, and, with respect, Mr. Lambert, that implication is unwarranted. There is in fact a money market which has been developed over the past few years, more particularly since 1954, with a certain amount of assistance, I may say, from the Bank of Canada—assistance which took the form initially of encouragement to financial institutions to develop a money market, and practical assistance in the form of lines of credit to money market dealers who are recognized as dealers in short term government securities, and who have defined lines of access to central bank credit which they use to back-stop the day-to-day loans that the chartered banks make to money market dealers, which are used for the purpose of carrying money market securities.

I could not agree with the implication of the term "inhibit". Presumably what you had in mind is whether the money market could be improved.

Mr. LAMBERT: I will agree with you that it does exist, but in rather modest proportions.

Mr. RASMINSKY: Its foreign complexion is extremely limited.

Mr. LAMBERT: What I am concerned about, Mr. Rasminsky, is the free development of a full money market.

Mr. RASMINSKY: It depends, Mr. Lambert, on what you mean by "modest proportions". On the most recent Wednesday for which figures are available, which is Wednesday January 25, 1967, included among the assets of the chartered banks are day-to-day loans to money market dealers in the amount of $270,000,000.

Mr. LAMBERT: Yes; but that is the day-to-day money market. I am talking about a full money market, with international dealings.

Mr. RASMINSKY: The investment dealers do engage in arbitrage transactions, Mr. Lambert.

I do not mean to suggest that I think that our money market is incapable of further development. I am sure that, like every institution, it is capable of further development, and I hope that there will be further development. Nor do I mean to suggest that the addition of some institutions, and perhaps foreign institutions, might not help in the process of further development. If, however, the suggestion you are making, Mr. Lambert, is that the presence of non-resident institutions is a pre-requisite to the further development of the Canadian money market, that is an implication with which I would not agree.

Mr. LAMBERT: I would say so, too, because there may be general evolution; but I do not think—and perhaps we part company here—that there will be the development of the full potential of a money market with the restriction on participation by foreign banks that is proposed now.

Mr. RASMINSKY: I might find it easier to reply to your question, Mr. Lambert, if you were to indicate what you think are the deficiencies in the money market at the present time.

Mr. LAMBERT: There have been suggestions that there has not been sufficient access to foreign exchange and to knowledge of such transactions. There has been testimony, before the Committee to this effect and I have also heard it from private sources. My view is that unless there is an absolute beneficial purpose, in imposing restrictions there is no value in imposing them for their own sake. These restrictions, at any time, seem to suggest that there will be a hindrance to evolutionary development.

Mr. RASMINSKY: Mr. Lambert, for the reason which I have indicated I do not think it would be appropriate for me to deal with the last observation you made; however, I am concerned with what the facts are, as regards the size and the scope of the money market.

In our statistical summary each month we publish a compilation, which we make with the help of the Dominion Bureau of Statistics who collect some of the information, of the amount of short-term paper outstanding in Canada. Now, short-term paper is the stock in trade of the money market, and I think it is the best single indicator of the size of the money market. I find in looking at the January, 1967 number of the statistical summary on page 30, that at the end of November 1966, which is the last date available, the amount of short-term paper outstanding—which means paper with an original term of one year or less—issued by Canadian issuers amounted to $1,186,000,000 of which $1,073,000,000 was denominated in Canadian dollars and $113 million in other currencies. This figure had been as high as $1.5 billion.

I suggest to you that figures of this magnitude are not to be despised; that they do indicate the existence of quite a large money market in Canada. As I say, I do not think that this could not be improved upon, either through enlargement or through improved techniques of the money market, but there is no doubt that there is a good—

Mr. LAMBERT: Mr. Rasminsky, you have been describing what I would term a lusty infant, in the knowledge that it started only in 1954. What concerns me is that this money market be allowed to grow to full adulthood.

Mr. RASMINSKY: I certainly hope that it will, Mr. Lambert.

Mr. LAMBERT: Thank you.

(Translation)

Mr. CLERMONT: Mr. Rasminsky, in regard to the international market, one of the obstacles to the existence of international markets in Canada is that Canadian currency is not international currency, in the sense that the American dollar and the English are.

(English)

Mr. RASMINSKY: May I repeat your question in English, Mr. Clermont, to be sure that I have understood it? Did you ask me whether the fact that the Canadian dollar was a domestic currency and not an international currency was an obstacle to the development of Canadian international trade, or have I misunderstood the question?

Mr. CLERMONT: Of a money market.

Mr. RASMINSKY: Of a money market? I think it is the case that if the Canadian dollar were a widely-used international currency there would be more foreign participation in the Canadian money market, and that the Canadian money market would be broader and wider.

I could say the same thing in a different way, that I think it is the case that if Canada were a creditor country in her international transactions, instead of being a debtor country, which would be a necessary condition for the Canadian dollar to be widely used as an international currency, then it would follow that the Canadian money market would be wider. In other words, if Canada were in the same position as the United States it would have a wider money market. I do not think there is any question about that. It is the fact that Canada is a debtor on international account, with large international indebtedness on capital account and a large current account deficit involving the import of capital, that precludes the use of the Canadian dollar as a reserve currency.

This is not a matter of desire, or will; it is a matter of what the facts of the situation are. The United States, of course, is in a completely different position. The United States is a large creditor on international account. She has a large current account surplus notwithstanding the fact that she has some real balance of payments problems. American dollars, as a result of historical evolution, are very widely held as reserves by foreigners. These dollar balances have to be employed somehow in order to earn some interest, and a fair amount of these balances—in fact a great deal of them—is employed in money market transactions, either in loans to the New York call market, or in holdings of money

market securities. This situation results from the underlying economic facts in the American situation, just as the fact that the Canadian dollar is not used as an international currency results from the underlying economic facts in our situation.

Mr. WAHN: Mr. Chairman, with Mr. Clermont's permission, may I ask a supplementary question?

Mr. CLERMONT: Yes.

Mr. WAHN: Mr. Rasminsky, in your view is it desirable that Canada should have a wider and more international money market, and, if so, have you any suggestions on what the Committee could do to encourage the growth of a wider and more international money market?

Mr. RASMINSKY: I do not know that I have any concrete suggestions on that subject. I think, as I indicated in a previous reply to Mr. Lambert, that a fair amount of international arbitrage takes place. Foreigners have a sufficient degree of confidence in the Canadian dollar that they are prepared to move capital into and out of Canada in response to fairly modest interest rate differentials, which helps to increase their participation in our money market.

If one looks at your question from a longer-run point of view, and if it is of great importance that we broaden the international character of our money market, we should be attaching great importance to reducing the deficit in our current account balance of payments and moving away from the position of being so large a debtor into a more balanced position.

Mr. WAHN: Thank you, Mr. Chairman.

(*Translation*)

The VICE-CHAIRMAN: Are you finished, Mr. Clermont?

Mr. CLERMONT: Mr. Rasminsky, last evening in reply to a question put by Mr. Cameron concerning the money supply, you implied that many average banks held foreign capital or that some banks or some big financial institutions on coming on to the Canadian market might exercise some influence on the money situation. Now, the fact that in 1953, when the Mercantile Bank received its charter and the 30th of June, 1962, when the United States bank bought the Mercantile Bank, the total assets of the bank were $84 million and the 30th of October, 1966, the assets of the Mercantile Bank were $224.5 million. Does this not indicate the difference in policy followed by the first directors as compared to that of the present set of proprietors. Does it not indicate that because a big banking institution bought the Mercantile, the activities of the bank on the Canadian market were different, than when managed by the Dutch?

(*English*)

Mr. RASMINSKY: Mr. Clermont, I really do not feel capable of analyzing the reasons for the difference in the size of the balance sheet of the Mercantile Bank on the two dates that you have indicated. It is indeed the case, as you have pointed out, that the total assets of the Mercantile Bank have increased quite considerably over the past several years.

The figures that I have before me and I think they are the same as yours which are taken from the Canada *Gazette* show that on June 30, 1963, the assets

of the Mercantile were $84 million and on October 31, 1966, the assets of the Mercantile were $225 million, approximately. These, of course, are the total assets of the Mercantile, and they include assets which are denominated in foreign currencies as well as those which are denominated in Canadian dollars. The *Canada Gazette* figures distinguish between certain categories of assets, according to the currency in which they are denominated. It is the case that quite a high proportion of the present assets and liabilities of the Mercantile are denominated in currency other than Canadian dollars.

I am afraid I do not know what the situation was in this respect on June 30, 1963.

(*Translation*)

Mr. CLERMONT: According to the figures given us last week by the officials of the Mercantile Bank, of the total assets of $284.5 millions, $111 millions represented foreign currency.

(*English*)

Mr. RASMINSKY: Yes, about 50 per cent; which means that the scope for growth in the Canadian assets is still quite considerable; that is, by way of substitution of Canadian assets for foreign currency assets.

Mr. CLERMONT: Thank you, Mr. Chairman.

The VICE-CHAIRMAN: I will now recognize Mr. Fulton and then Mr. Grégoire.

Mr. FULTON: I want to leave the Mercantile, which seems to me to be a rather arid field of discussion, and come back to some of the other matters.

The VICE-CHAIRMAN: Yes; I fully agree with that.

Mr. MONTEITH: Mr. Chairman, I have just one supplementary question. Did I understand you to say, Mr. Rasminsky, that there would still be quite a reasonable scope for the Mercantile to change some of its foreign-held assets to Canadian?

Mr. RASMINSKY: That would seem to be the case, Mr. Monteith.

Mr. MONTEITH: And that the bill before us would actually limit them to $200 million of Canadian assets?

Mr. RASMINSKY: I do not think the bill draws any distinction between Canadian assets and U.S. assets.

Mr. MONTEITH: Well, may I ask a question purely from a lay standpoint? I do not know how this would work at all. How could the assets be reduced from $225 million to $200 million?

Mr. RASMINSKY: Mr. Monteith, I do not know how that provision of the Bank Act would work or whether it would require any reduction in their assets. I am the wrong person to answer that question.

Mr. MONTEITH: Thank you; that is all, Mr. Chairman.

(*Translation*)

Mr. GRÉGOIRE: I have but one question on the Mercantile Bank.

The VICE-CHAIRMAN (*Mr. Laflamme*): Go ahead.

Mr. GRÉGOIRE: Mr. Rasminsky, the Canadian Bankers' Association have defended the Mercantile Bank and chartered banks' presidents have defended the viewpoint of the Mercantile Bank, even though they might represent serious foreign competition for Canada. It seems to me odd; you, who know these bankers well, could you explain why these bankers defend a competitor from abroad?

(English)

Mr. RASMINSKY: Mr. Grégoire, the last thing in the world I can explain is the purpose of the chartered banks. You might call on them yourself, and put the question to them. But I believe that the Canadian Bankers' Association, as an association, did not take a stand insofar as the Mercantile issue is concerned. I know that a president of one the chartered banks—

The VICE-CHAIRMAN (*Mr. Laflamme*): Mr. Grégoire, the Association will be appearing this afternoon and you can put the question directly to the witnesses.

(English)

Mr. FULTON: I want to come to the matter of deposit insurance, Mr. Rasminsky. We have now seen the government's bill. Am I correct in my understanding of its effect that the deposit insurance corporation will be a separate entity from the Bank of Canada, although the Bank of Canada will be represented on its board, or governors?

Mr. RASMINSKY: I am going to answer that question, Mr. Fulton, but before I do may I say that the deposit insurance bill is government legislation, and I am not qualified to respond to any detailed questions regarding the deposit insurance bill.

Having said that, and in reply to your question, it is the case that the bill which is before the House and, I believe, before the Committee, does propose to set up an institution which will be separate from the Bank of Canada but on the board of which the Governor of the Bank of Canada will *ex officio* be a member.

Mr. FULTON: You express reluctance to answer detailed questions. Is that with respect to policy, or do you also include the field of operations? By that I mean questions on how it will operate and what its effect will be?

Mr. RASMINSKY: Really, basically, both, Mr. Fulton; but I would like to be as helpful as I can. If you wish to put a few questions I will see whether I think it is appropriate for me to answer them; but I certainly cannot answer any questions regarding the field of operation of deposit insurance.

Mr. FULTON: Well, Mr. Rasminsky, you are, or one of your officials, is going to be a member of the board. It is difficult for me to assume, as I think you invite me to, that you really do not know how it is going to operate. Knowing you as well as I do I find it difficult to believe that that would be the case.

Mr. RASMINSKY: I know, in a general way, what the legislation contains, Mr. Fulton. I think I know what the objectives of the legislation are.

When the legislation was being drafted I was asked whether I would be prepared to serve *ex officio* as a member of the board and I indicated that I would. But that is as far as it goes.

My concern with deposit insurance, of course, is its impact on the functioning of the financial system generally. On the question of how it will operate, I would assume that, like other similar institutions, it will operate within the provisions of the act setting it up, if Parliament adopts the bill. There is, I think, a fair amount of detail given in the bill on how it will operate.

Mr. FULTON: What I had wanted to ask you first was with respect to its relationship with, and impact on, the money supply and credit situation in Canada, and then I was going to ask for your views on the feasibility of an extension of the principle of deposit insurance and that aspect of it called the lender-of-last-resort principle, for instance. These would be fair fields. Let me try out a few questions, as you suggested.

Mr. RASMINSKY: Yes.

Mr. FULTON: To the extent that institutions other than the banks subscribe to, or become members of, the deposit insurance system, will this have any bearing upon the money supply and the ability of those institutions to expand it?

Mr. RASMINSKY: I think, Mr. Fulton, the short answer to the question is No; that there is no direct relationship between the deposit insurance system and the money supply. The money supply, basically, is the result of monetary policy. I have indicated in previous evidence before the Committee that I do not regard the money supply as really the main criterion of monetary policy, or the main way in which one should judge what the monetary policy is.

I regard the general characteristics of the credit conditions, the price and availability of credit, as giving a better indication of what the monetary policy is.

In some cases both these criteria would be moving in the same direction, so to speak, but in other cases, of which we have had some recent examples, they could be moving in opposite directions.

May I complete the answer?

Mr. FULTON: Yes, please.

Mr. RASMINSKY: What difference deposit insurance could make, apart from the basic purpose of ensuring, within the limits provided by the act, the safety of the deposits in the insured institutions, is in the distribution of the deposits among various competing institutions in the community, some of which form part of the money supply, technically defined.

I suppose one of the purposes of deposit insurance in that connection, in addition to its main purpose of providing the security for deposits, is to make it somewhat easier for the smaller and newer financial institutions to compete for deposits against the older, better-established institutions. This, of course, is subject to the institutions concerned being willing to come in under the inspection provisions which are a necessary condition of membership in the proposed deposit insurance corporation.

Mr. FULTON: Would it be your opinion that once the system is set up and operating, and assuming that it has a pretty widespread membership—in other words, assuming that the purpose is achieved in fairly substantial part—this would have a bearing upon the readiness and ability to expand credit in Canada?

Mr. RASMINSKY: Again, Mr. Fulton, I think that it would have a bearing on the credit situation to the extent that it led to higher standards of credit-granting through the inspection provisions, and to the extent that, by creating an atmosphere of confidence, which one would hope would be merited under the inspection provisions, in financial institutions, it avoided periodic difficulties of financial institutions.

These difficulties, as we have seen, do have a bearing on the credit situation. They may, on occasion, result in an undesirable tightening of credit. Therefore, I think that there is some connection there between the credit situation and the establishment of deposit insurance; although, after the establishment of deposit insurance, assuming that Parliament does establish it, I think that basically credit conditions will continue to be influenced mainly by monetary policy.

Mr. FULTON: You have probably answered my question, but I am not sure whether I could conclude from your answer that the deposit insurance corporation can be used as an assist to monetary policy with respect to control over credit, as exercised by the central bank.

Mr. RASMINSKY: I think that if it is broad enough and if it is well run it should contribute to two things, Mr. Fulton. I think that it should contribute to stability in credit conditions, for the reason I have given. Secondly, I think that it should contribute to some deconcentration—if that is the opposite of "concentration"—or dispersion in the present distribution as between the large established institutions and the smaller and newer institutions. In other words, I think that deposit insurance, on the whole, is a factor which tends to offset or to work in some degree—perhaps only in a modest degree—against the concentration of financial resources in the present financial system.

Mr. FULTON: Under the bill the deposit insurance corporation is also to be a lender of last resort for those institutions which belong to the system?

Mr. RASMINSKY: That is right, Mr. Fulton, yes.

Mr. FULTON: As presently drafted it would cover banks, trust companies—all deposit-taking institutions—but not the field of finance companies as they are, generally, presently constituted?

Mr. RASMINSKY: Yes, that is right, Mr. Fulton.

Mr. FULTON: Would you see the possibility of extending the ambit of the deposit insurance corporation, and the control and inspection incidental thereto, to finance companies if it were authorized to act as a lender-of-last-resort in that field?

Mr. RASMINSKY: I find it difficult to answer that question, Mr. Fulton. All the institutions which are at present eligible for membership in the proposed deposit insurance corporation are subject to specific governmental legislation, either federal or provincial, and I think I am right in saying that in all cases the governmental legislation provides for inspection of the companies, including inspection of their assets; so that the governmental authorities are already involved with those institutions. That certainly is the case with the chartered banks, with the Quebec savings banks, with the federally-incorporated trust companies and with the provincially-incorporated trust companies. Inspection is

a necessary part of this process. One is not going to insure everything without being sure that the business is being operated on a sound, efficient basis.

At the present time I am not aware that there are such provisions for governmental inspection in the case of the companies to which you refer. I think it would be a very important consideration indeed, whether it would be appropriate for such institutions to be eligible for membership in the deposit insurance corporation.

Mr. FULTON: I am told that in the field of the finance and acceptance business, in which many companies are long-established and have successful records of operation, one of the very important means by which they feel that they can finance contracts and make acceptances and so on is the extent to which they are able to establish lines of credit with the chartered banks; and that this availability of a line of credit is to them a sort of bedrock which they take into account to a very large extent in deciding the scope of their operation. Is this within your knowledge, correct?

Mr. RASMINSKY: Broadly speaking, I think I would agree that that is the situation, Mr. Fulton.

Mr. FULTON: I have also been told that at times of tight money, or because of changes in the monetary policy, they have found, when they go to the banks —because, perhaps, some of their own paper has come due and has been called when it has been due instead of being renewed—the bank will say, in effect: "But there is tight money now and we cannot extend credit to the full extent of the line".

Mr. RASMINSKY: I have heard that, too. I have also heard the banks say that when some of the finance companies can borrow more cheaply on the open market by the issue of their paper they prefer that source of borrowing; but that when the rates go above the rates at which they can borrow from the banks they come into the banks. In other words, they are foul-weather friends. You hear all sorts of explanations for these things.

Mr. FULTON: Well, I am not here seeking to attribute fault or blame but would not monetary policy have a bearing on the readiness, or the ability, of the banks to extend the full line of credit which, it had been assumed, or had been arranged at some previous time, would be available? The picture I am putting and which has been put to me, is not a fanciful one, I take it? It is a factual situation?

Mr. RASMINSKY: Whether the finance companies have had difficulty in obtaining the funds for lines of credit established—

Mr. FULTON: No; I am putting to you that a bank might well be in a position where, because of a change in monetary policy, or in the money supply, or in the reserves it is required to maintain, it found it was not able to extend the line of credit to the full extent that might have previously been arranged?

Mr. RASMINSKY: That would be as true of finance companies as of any other borrower in Canada, yes, sir.

Mr. FULTON: It has therefore been suggested to me that if these companies had available to them some lender-of-last-resort to meet this kind of situation it would be a very valuable and important thing to them. It is not that they would

expect to go to a lender-of-last-resort on easy terms, because they would expect to pay some penalty—perhaps some higher interest rate—but that it would be an important stabilizing factor in their operations. Would this seem to you to be a reasonable statement?

Mr. RASMINSKY: I am sure that lender-of-last-resort facilities would be useful to any borrower, Mr. Fulton. I think one would want to make a distinction between ordinary operating credits, and there I would see no case whatever for lender-of-last-resort facilities to protect one particular industry against the impact of credit conditions. I think one would want to distinguish between that, on the one hand, and emergency situations, on the other hand, where, because of circumstances beyond the control of the industry—for example, circumstances of the type that arose after the failure of Atlantic Acceptance. There was an inability to renew short-term paper and there was a sharp liquidity crisis created.

Mr. FULTON: Yes, indeed.

Mr. RASMINSKY: In those circumstances it certainly is clear that anyone who found himself in that position would, indeed, derive benefit from lender-of-last-resort facilities.

In actual fact, in the case of the aftermath of the Atlantic Acceptance collapse, and in order to prevent sweeping, undesirable consequences on the credit structure of Atlantic Acceptance, I made a request of the banks, as you know, for them to act, in effect as a lender-of-last-resort for credit-worthy finance companies which found themselves in special difficulties on account of inability to renew maturing short-term paper. On that occasion I am obliged to say that the banks rallied round very well and complied with the request I made of them.

Mr. FULTON: Then it would be reasonable to assume that if a system were devised under which this lender-of-last-resort facility were to be available one would require companies wishing to come in under that system also to agree to, and accept, the level of regulation and inspection that the authority operating the system would impose?

Mr. RASMINSKY: If it were appropriate for an official institution to fill this role, Mr. Fulton, I think that would be absolutely indispensable.

Mr. FULTON: It does hold out the possibility, at least, of bringing these types of institutions under a uniform—and it would be federal—level of inspection and control?

Mr. RASMINSKY: Mr. Fulton, I think that, as a prerequisite, some special legislative framework would have to be established, governing these institutions. Most of them are not federally-incorporated, you know; most of them are provincially-incorporated.

Mr. FULTON: Yes.

Mr. RASMINSKY: They operate under the provincial Companies Acts and normally the acts do not even provide statistical information on their operations let alone any special provision for inspection.

I think that the beginning of the process that you have in mind would have to be a special legislative framework under which the institutions that you are talking about would operate.

Mr. FULTON: I do not understand that there is any special legislative framework contemplated, other than the deposit insurance act itself, to bring them within the ambit of deposit insurance and thereby to extend to these other institutions a system of inspection and control by reason of their membership in the deposit insurance system.

My point is: If this idea were extended through the device of the lender-of-last-resort being made available to finance and acceptance companies it would then be logical to assume that once again, as a price, as it were, of this facility they would have to agree to the same level of inspection and control without any other special legislative device.

You would have your legislation setting up the lender-of-last-resort system, as you now have your legislation setting up the deposit insurance system which, in its present limited field, would also be a lender of last resort; and you could then have your legislation extending "lender-of-last-resort" to cover finance and acceptance companies. Would that not be the umbrella under which you could bring them in with respect to inspection and control?

Mr. RASMINSKY: That is one possible way of going about it, I suppose. I would have thought, myself, that since practically all of these institutions are provincially-incorporated the beginning of the process that you have in mind would lie in the provincial acts under which they operate.

Mr. FULTON: But a large number of those institutions which, it is hoped, will come into the deposit insurance scheme are also provincially-incorporated.

Mr. RASMINSKY: That is right. The acts under which they operate, Mr. Fulton, do provide for inspection and control.

Mr. FULTON: But only at the provincial level.

Mr. RASMINSKY: At the provincial level, yes; which is not the case with the institutions to which you refer.

Mr. FULTON: But as I understand the working of the proposed deposit insurance system, when they subscribe to it they will also be subject to federal inspection and control. That does not wipe out provincial inspection and control. It is additional inspection and control.

Mr. RASMINSKY: That is right.

Mr. FULTON: What I am asking is this: Would not the situation be the same if we extended the umbrella by the lender-of-last resort device?

Mr. RASMINSKY: It would not be quite the same. All the institutions which, it is proposed, are to be allowed into the deposit insurance scheme operate under either federal or provincial pieces of legislation which, apart from inspection and control, lay down certain requirements that they must meet in order to have charters—in order to operate. In the case of the banks these relate to cash reserve requirements and all the other provisions. In the case of provincial trust companies they have provisions regarding the liquid assets that they must maintain, and so on. Over and above that there is the process of inspection and control.

What I am suggesting is that if the situation is to be analogous, and if the companies that you are talking about are to have access to the deposit insurance

scheme, it would seem to me to be natural that there should be either provincial or federal legislation governing the activities of the sales finance companies.

Mr. FULTON: Yes. The legislation with respect to these finance and acceptance companies could be federal if the federal government were extending this facility?

Mr. RASMINSKY: That is right.

Mr. FULTON: In your opinion would it not be desirable to have this whole system for these companies as well?

Mr. RASMINSKY: At this point I come back to where we came in. This is a matter of government policy.

Mr. FULTON: I thought I might slip that in.

The VICE-CHAIRMAN: I am sorry to interrupt you, Mr. Fulton, but I really think that perhaps some of your questions should be directed to the Minister of Finance himself when he appears on Thursday.

Mr. FULTON: They will be; but I was hoping that I might get an indication from Mr. Rasminsky, as well.

The VICE-CHAIRMAN: Mr. Lambert, do you still have your supplementary question?

Mr. LAMBERT: Yes, I have. It refers back to the question of the dispersal of concentration to the non-banking institutions. Is it not rather a paradox that the deposit insurance scheme will strengthen that sector of the banking field over which you have no direct monetary control?

Mr. RASMINSKY: Mr. Lambert, this goes back to a problem that we discussed at considerable length when I was before the Committee in October and November, namely, the problem of whether the control that the Bank of Canada exercises affects only the chartered banks or affects institutions which compete with the chartered banks.

The problem at that time was stated rather differently, and was in this form: Is it necessary to bring these non-bank financial institutions into the central reserve system, to force them to have cash requirements, etc., in order that monetary policy might be effective? The answer that I gave to that question was negative; that I did not then think, and I do not now think, although I do not know what I will think in ten years' time—if I am thinking at all—that it is necessary to bring these institutions into the central system. I think that the influence that the Bank of Canada is able to exercise to obtain the credit conditions that it wants is pervasive enough under the present arrangements that all institutions, whether or not they are in the central reserve system, are in fact affected by our operations.

Mr. LAMBERT: Yes; there is an indirect effect on them, but the net result would be that the pressure of the monetary policy controls on the chartered banks would have to be sharper and more concentrated if you wanted, shall we say, quick responses from the non-chartered bank institutions.

Mr. RASMINSKY: I am not at all sure that that is right, Mr. Lambert.

Mr. LAMBERT: It is an arguable point.

Mr. RASMINSKY: It is a point that has been argued; it is an arguable point; but I have never felt, in my own experience, that the central bank has been particularly inhibited, or frustrated, in bringing about changes in the credit situation of a type that it thought appropriate, on account of the fact that these non-bank financial institutions are not subject to our direct control.

There are other questions involved. I am dealing only with the ones about which you have asked, there are questions of equity as between banks and near-banks. There are questions of relative growth rates, which is perhaps one aspect of equity. There one would have to go into the causes of differential growth rates. But on the particular point that you have in mind, it has not been my experience, either when I worked at it or when I thought about it, that the absence of direct control over the non-bank institutions has kept me, broadly speaking, from carrying out the type of monetary policy that I thought appropriate.

Mr. FULTON: I think that when you answered this question in October—I believe I was covering the field with you then—you modified your reply to a somewhat greater extent than you have this morning, by saying that you would admit—I would just like to test my recollection with yours—that circumstances could be such that you would come to a different conclusion even within ten years. I think you went as far as that.

Mr. RASMINSKY: Oh.

Mr. FULTON: You went so far as to say, "I will not say now that I would be of the same view ten years from now. I might even change it within that period".

Mr. RASMINSKY: I do not recall saying that, but if I did I am willing to repeat it.

Mr. FULTON: It is not a view to which you find yourself unable to subscribe?

Mr. RASMINSKY: No.

(*Translation*)

The VICE-CHAIRMAN: Mr. Grégoire?

Mr. GRÉGOIRE: Mr. Rasminsky, following the same line of thought, when some days ago, the Montreal City and District Savings Bank incident happened, in view of the recognized solidity of the Montreal City and District Savings Bank was the Bank of Canada ready to supply the necessary cash to meet this emergency?

Mr. RASMINSKY: Yes.

Mr. GRÉGOIRE: Up to what sum would the Bank of Canada have supplied?

Mr. RASMINSKY: This is a question we did not have to face, because the position of the Montreal City and District Savings Bank improved, the situation changed very rapidly. This situation only lasted two or three days. Our advances, the total of our advances to the Montreal City and District Savings Bank, were a great deal below what might have been expected and the question did not present itself to us.

Mr. GRÉGOIRE: Above or below?

Mr. RASMINSKY: Below.

Mr. GRÉGOIRE: And if the same thing would happen in the case of another chartered bank, a chartered bank like the Bank of Montreal, for instance, would the Bank of Canada follow the same course of action?

Mr. RASMINSKY: Yes.

Mr. GRÉGOIRE: Up to what amount could the Bank of Canada go without upsetting the economy of the country?

Mr. RASMINSKY: It is so hypothetical a question that truly I cannot reply to it.

Mr. GRÉGOIRE: Following another line of thought, this is a question concerning the mechanism of the Bank of Canada which, to increase or decrease cash in circulation or legal tender in circulation will buy or sell bonds; does the Bank of Canada do this every day or at regular periods or at indeterminate periods?

Mr. RASMINSKY: At indeterminate periods but almost every day.

Mr. GRÉGOIRE: Almost every day?

Mr. RASMINSKY: Yes.

Mr. GRÉGOIRE: And if instead of withdrawing this legal tender, that is the reserves at the chartered banks, you added to them, would you notify the chartered banks before doing so?

Mr. RASMINSKY: No.

Mr. GRÉGOIRE: So that if, at a given moment, you withdraw $5 million from circulation, which would mean an equal reduction of the reserves of the chartered banks as a whole, the chartered banks would have to decrease their deposits and loans 12½ times or by approximately $62 millions?

Mr. RASMINSKY: The relation between cash in circulation, including chartered banks' deposits with us, is not as rigid as you seem to believe. First of all, the chartered banks are not obliged to keep fixed reserves with us, determined each day; it is a monthly average that must be on deposit with us, or in the form of bills in their cash reserves.

Mr. GRÉGOIRE: Do you not think that playing with money reserves without notifying the chartered banks and doing this at indeterminate periods with appreciable sums would have the effect of making it more difficult for the chartered banks to conduct their operations and does it not complicate this constant calculation of the relation between their reserves and their deposits and loans?

Mr. RASMINSKY: No.

Mr. GRÉGOIRE: Does this not make their task any more difficult?

Mr. RASMINSKY: No.

Mr. GRÉGOIRE: Would it not be easier for them if these operations of the Bank of Canada were carried out at determined periods and the chartered banks were notified ahead of time?

Mr. RASMINSKY: This is neither practical nor possible. Generally speaking, our operations, most of our operations are subject to market fluctuations. Generally speaking, we do not decide to take an initiative of any sort, but we act in accordance with circumstances in the market, the bond or stock market, or with quantities of liquid assets of the banks. In any case, it would not be practical

to say that Tuesday, at 3 o'clock in the afternoon, we will operate in a given amount on the market. We cannot act in this manner.

Mr. GRÉGOIRE: For instance, in the Statistical Bulletin of the Bank of Canada, I see, according to the monthly report, that between December 1965 and January 1966, there was a significant decrease in the bills in circulation, about $130 million during one month. Would this not have rather serious repercussions among the—

Mr. RASMINSKY: No, that was after Christmas. But every day in December, if you look at these figures for each year, you will see that every year, in the month of December, there is a very heavy increase in notes in circulation for obvious reasons—and then in January, the stores, the deposit accounts, with their bills and active circulation—

Mr. GRÉGOIRE: But going back to July 1965, the bills in circulation amounted then to a greater amount than in January 1966 and the same goes for each of the months of July, August, September—

Mr. RASMINSKY: Yes, there is a situation which takes place in the summer also. Bills in active circulation are not a significant indication of the monetary policy.

Mr. GRÉGOIRE: But each time you withdraw these bills from circulation, you decrease bank reserves. Is it not true that you oblige the chartered banks to reduce by 12 and a half times their loans and deposits?

Mr. RASMINSKY: Are you asking a question?

Mr. GRÉGOIRE: Yes. Each time you decrease the bank reserve, do you not force the chartered banks to reduce their loans and deposits by 12 and a half times the amount of that reduction?

Mr. RASMINSKY: There is a relationship, laid down under the law, between the cash reserves of the chartered banks and their obligations towards the public, that is, the deposits. If their indebtedness to the public increases, as you will see from the statistics, then the chartered banks are obliged to have more cash reserves in the form of deposits with us or in the form of bills in their own cash reserves.

Mr. GRÉGOIRE: In a ratio of 12 and a half—

Mr. RASMINSKY: 12 and a half, yes.

(*English*)

Mr. WAHN: Mr. Rasminsky, can you or your officials express any opinion on whether there is at the present time effective competition among the Canadian chartered banks in the interest rates that they pay on ordinary deposits? I am talking of the ordinary savings deposit of the ordinary Canadian citizen.

Mr. RASMINSKY: On savings deposits?

Mr. WAHN: Yes?

Mr. RASMINSKY: There certainly is competition, Mr. Wahn, among the banks for savings deposits.

Mr. WAHN: Is there any price competition?

Mr. RASMINSKY: I find it difficult to answer that question, Mr. Wahn, because one might think at first sight that a uniformity of price is an indication of the absence of competition, and I believe that it is the case that the rates paid by the chartered banks on savings deposits are uniform. I am not sure that that is the case but I believe it is. You will have an opportunity to put that question to the Canadian Bankers' Association when they come back.

The difficulty I have in answering the question is that if one were to—It is the case, for example, that there is a world price for wheat, or there is a world price for cotton, where you have a homogeneous commodity which is easily transferable and where there are low transport costs from one place to another and where there are low transport costs it is very likely—indeed, almost inevitable—that there will be a great similarity in the price of the commodity.

Mr. WAHN: The question came to my mind because I gather that some of the trust companies do in fact pay a higher rate of interest on deposits. It struck me as just a little odd that there would be no difference in the rate among the Canadian chartered banks even though rather similar institutions were paying a rather higher rate. In other words, do you have any information on whether or not there is an agreement, written or unwritten, among the Canadian chartered banks to pay the same rate on savings deposits?

Mr. RASMINSKY: I have no knowledge on this subject, Mr. Wahn.

Mr. WAHN: Then looking at the lending aspect of the Canadian chartered bank operations, do you have any views to express to the Committee on whether or not there is effective competition among the Canadian chartered banks in their lending rate on loans made to, say, the small businessman? I am not talking about the type of borrower who can go down to New York and borrow or can go to an outside market, or can raise money by the issuance of debentures. I am talking about the ordinary small businessman who usually finds, whatever bank he goes to, that the rate is more or less the same.

Mr. RASMINSKY: At the present time the rate is the same for not only the small businessman but the big businessman.

I think that it has been so long since the maximum lending rate permitted under the Bank Act was really out of relationship with market rates of interest that it is not at all surprising that you have practically all lending conducted at the maximum rate of interest permitted under the Bank Act.

Previous to that it is my impression, though at the moment I would not be able to document it, that there was a differential between the prime rate of interest and the maximum rate of interest and that to some extent differences in the appraisal that banks made of the credit risk involved in particular borrowers did result in the banks' charging different rates of interest.

Mr. WAHN: I would like to change my line of questioning. I realize that you cannot, or do not wish to, express any point of view on governmental policy, but if it can be done, consistent with governmental policy, is it your view that it would be desirable to have more competition within the Canadian banking system? Can you express a view?

Mr. RASMINSKY: I am quite prepared to say that I am in favour of competition everywhere, including and perhaps even particularly within the Canadian banking system.

Mr. WAHN: If my recollection is correct I believe that evidence has been given to the effect that there is no prohibition, either in the existing Bank Act or in the proposed new bank act, which would prevent any corporation from carrying on a banking business, or banking activities, provided that the corporation did not use the words "bank' 'or "banking". If that is correct, is there not a large loophole in our regulatory legislation?

Perhaps I could take a specific example. Let us suppose that a very large American banking corporation came into Canada and incorporated a company called the "X" Financial Services Limited, a wholly-owned subsidiary of the "X" Corporation, with assets of $16 billion and that deposits and loans were gratefully accepted and made. Under what regulation would such an institution come?

Mr. RASMINSKY: It would depend, Mr. Wahn, on how such an institution was incorporated. That is to say, if the question is whether it is possible for an institution to carry on what is essentially the business of banking under present legislation without being incorporated under the Bank Act, then I think I would reply to that question in the affirmative.

Mr. WAHN: Would you consider that a danger, or a loophole in our law?

Mr. RASMINSKY: I think that it would be desirable that the conditions under which those institutions conduct their affairs under the Bank Act, should be sufficiently similar to the conditions that they would have to fulfil if they did not do so that they would conduct their business under the Bank Act. I believe that the legislation which is before this Committee operates in that direction. I think that it contains several things which should make it more desirable for institutions of the type you have in mind to operate under the Bank Act than to operate in some other way.

If I can enumerate some of those things, and if I can start with what I believe to be the beginning I think that the cash reserve requirements under the proposed bill are somewhat less onerous on banks than they are under existing legislation. I think that if parliament approves the legislation the provisions regarding rates of interest that can be charged on loans will remove one of the disabilities of operating under the Bank Act, and give more flexibility. I think that the proposed legislation that authorizes the chartered banks to issue debentures for the first time is of the same character. I think that the introduction for the first time of the power to make mortgages within certain limits—and limits also apply to the issue of debentures—is of the same character. There may be other things as well, that I cannot think of at the moment.

I would hope that the over-all effect of this legislation would be to reduce the comparative disadvantage that institutions now experience as a result of operating under the Bank Act, and, consequently to do two things; first to give some encouragement to the formation of new banks—I would like to see more banks—and, second, to give some encouragement to financial institutions, now operating under other statutory authorities, to operate under the Bank Act.

Mr. WAHN: I have a question along a different line altogether. Again assuming that it could be done consistent with governmental policy, do you feel that it would be desirable to have a broader and more active money market in Canada, or does it make any difference?

Mr. RASMINSKY: I would like to see a broader and more active money market and a broader and more active capital market. I would like to see a general increase in the depth and efficiency of all our financial institutions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Rasminsky, I would like to pursue some of the questions Mr. Fulton was asking you with regard to the extension of deposit insurance privileges to the finance companies and his related question about providing them with the lender-of-last-resort privileges.

In the first place, it seems to me that these are institutions which, by definition, do not fall within the type of institutions for which deposit insurance is designed; that is, they are not receivers of deposits from the public as other institutions are. I would like to hear your comment on that. Do you not think that that in itself would exclude them from this type of legislation?

Mr. RASMINSKY: I do not know that I would care to express a categorical view on that, Mr. Cameron. There certainly is something—a good deal, perhaps—in the point that you make. These are not deposit-receiving institutions. On the other hand, I think the line of distinction between deposits and other types of liquid assets is really not a hard-and-fast line. One phases almost imperceptibly into the other.

Bank deposits are of various types. You have current accounts; savings deposits, which are evidenced by entries in a pass book; and deposit certificates, where you get a piece of paper which looks like a security. We also classify as deposits the bearer notes issued by the banks, and the short-term paper issued by finance companies has some similarity to these evidences of deposit issued by banks.

Of course, on the other side of this spectrum it does not stop—and this is a point that should be raised—at instalment finance company papers. The instalment finance companies are not the only non-bank issuers of paper which is purchased by the investing public. Commercial firms also issue paper.

Basically, I think one would have to ask: Where does one draw the line? At what point does one say: this is a type of investment which should qualify for deposit insurance, even though it is not technically a deposit, but the other thing is not that type of investment?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Of course, as Mr. Fulton pointed out, the basic foundation of their operations is their line of credit from the banks. I imagine, although I have not examined it closely, that their other methods of rasing funds are ancillary to that and not as important an item in their consideration in that largely, shall we say, they are in the role of retailers of credit which the banks wholesale to them.

Mr. RASMINSKY: Mr. Cameron, I should like to make two comments. First of all, one of my colleagues has pointed out to me that in responding to your previous question I may have left the impression that membership in the deposit insurance system was the only way in which lender-of-last-resort facilities could be available to finance companies or to anyone else. That is, of course, not the case. If the Government of Canada, or any of the provincial governments, thought it important to provide this protection to instalment financial institutions they could set up separate lender-of-last-resort facilities.

The other thing that I wanted briefly to comment on is the implication in the observation that you were beginning to make that the finance companies depend, to the extent that you indicate, on the lines of credit from the chartered banks. I do not know whether this is so or not. I would not want my silence to indicate that I think that that is, in fact, the situation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This was the situation when we had the small loan companies before the Committee some ten years ago.

Mr. FULTON: My understanding with respect to the type of company I referred to is that the line of credit with the banks is largely kept in reserve. They normally go elsewhere, but they rely heavily upon this backing. It is when they come to draw on it and find that it has shrunk that they get into trouble.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Let us move on, Mr. Rasminsky, to the question of lender-of-last-resort. I wonder if perhaps you could define a little more precisely the meaning of "lender-of-last-resort"? I had always been under the impression that the term was usually applied to institutions such as the central bank.

Mr. RASMINSKY: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Actually the type of lender-of-last-resort to which you have referred is not technically a lender-of-last-resort in that sense. Does not "lender-of-last-resort" usually imply access to the central credit expansion agency of the country.

Mr. RASMINSKY: I feel a little sensitive on this point of defining "lender-of-last-resort", Mr. Cameron, because in the Per Jacobson Memorial lecture which I delivered in Rome in November, on the subject of the role of the central bank today, I said, among other things, that the traditional function of the central bank to act as lender-of-last-resort was one that was happily very rare these days. I came back, and I have recently found myself acting as a lender of last resort on some scale. I think that what is meant, or at least, what I would mean—and you would probably get different answers from different people, Mr. Cameron—what I would mean by a lender-of-last-resort which, in the past, has normally been the central bank is an institution which is able to meet sudden liquidity requirements that arise in the economy, these could happen for a variety of reasons, the main one of which, I suppose, would normally be a banking crisis that resulted in people wanting to withdraw a lot of cash, and wanting to do that from institutions which were perfectly sound and perfectly solid. It would create difficulties because the assets, although sound, might not be readily available. They might have been invested in some assets of a longer-term type.

The reason that the central bank is traditionally the lender of last resort is that the central bank, under ordinary circumstances, would have no liquidity problem. It is the ultimate source of liquidity, and it would have no liquidity problems of its own. This might not be the situation, of course, if the central bank were operating under a gold standard and if it, in turn, had to hold certain assets against its liabilities.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But under modern conditions that is not the case.

Mr. RASMINSKY: Under modern conditions that is not the case. Traditionally the central bank, as the ultimate source of liquidity, has been the lender of last resort. This is just tradition. It is not inevitable that the central bank should be the institution that operates in this way. It is a function that could just as readily be performed by governments.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes; but at least it could not always be performed by an intermediary institution. The intermediary institution would, in the final analysis, have to have access to the ultimate lender of last resort?

Mr. RASMINSKY: I think that is perfectly correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I just wanted to clarify that point. And the institutions that have direct access to the ultimate lender of last resort must be part of the reserve system, must they not?

Mr. RASMINSKY: I do not see how it could operate otherwise, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): When we speak of providing lender-of-last-resort facilities for institutions that are not part of the reserve system we are really suggesting the provision of facilities by which intermediary institutions that do have access are able to come to the rescue of such companies?

Mr. RASMINSKY: I am sorry; would you mind repeating the question, Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes. When the suggestion is made that the privileges of access to the lender of last resort be made available to institutions that now do not have direct access to the ultimate lender, then, really, all that we are suggesting is that the ultimate source—the central bank—should be prepared to enable intermediary institutions to perform that function as, I believe you mentioned just now, is the case when you approach the chartered banks?

Mr. RASMINSKY: Yes; I think that is fair enough. That is the fact, in essence, although it was not put that way. In essence that is what happened in 1965, and, of course, it is the case that if, for any reason, the lender of last resort became the government, then the government can always meet its obligations, and if the lender-of-last-resort facilities through the government created financial problems for the government that is certainly something with which the central bank would have to concern itself.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, if I may, I will turn just for a moment to another matter. I do not know if you have had an opportunity to read the evidence of Dr. E. P. Neufeld.

Mr. RASMINSKY: Yes, I have.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You may recall that he had some suggestion that there be what I would call an interim bank charter for trust companies. Upon reading it through I cannot find that he had any very definite views on whether there would be cash reserve requirements.

I wonder if you would make some comment on Dr. Neufeld's suggestion that there be an interim form of charter for the ensuing ten years?

Mr. RASMINSKY: Well, had I known that you were going to ask that question I would have taken the opportunity of studying the evidence more carefully and having it more freshly in mind than I do, Mr. Cameron.

It is the case, of course, that most trust companies are provincially incorporated, and it is also the case that some of the present disadvantages of operating under the Bank Act will be reduced if the proposed legislation is passed. The main function that trust companies—I think that the trust companies have two main functions as the legislation now stands and as it will stand. The main differences, so far as operations are concerned, are that there is one thing that the trust companies are allowed to do now that they would not be allowed to do under the Bank Act, and one that they are not allowed to do now but would be allowed to do under the Bank Act. They now have the power to act as trustees, and banks cannot do that. The other side of it is that they now do not have the power to make commercial loans, and, of course, as banks they could do that.

The main problem would therefore, relate to the trustee powers that they would have to give up. If this turned out to be an obstacle to trust companies operating under the Bank Act I would have a certain amount of sympathy for the notion that their entry under the Bank Act might be facilitated.

Of course, it might be a question of when the transitional period takes place. I think that Professor Neufeld's suggestion was that the transitional period should take place after they had come under the Bank Act, and that they should be obliged to give up these activities within a certain period afterwards. Another way of going about this would be for the trust company, once it had decided that it would prefer to operate under the Bank Act, to prepare for that by gradually giving up the trustee function.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It seemed to me that Dr. Neufeld had the idea not that they would give up their fiduciary functions but that at the end of a ten-year period the banks might well move into that field, too, and that they would be indistinguishable types of institutions.

Mr. RASMINSKY: Oh, I see. I am sorry; I had forgotten that point.

The VICE-CHAIRMAN: Mr. Cameron, I do not want to interrupt your questioning but do you have many more questions? There are other members who have only a few questions to ask and I would just like to know if we could continue with them?

Mr. CAMERON: Yes.

(*Translation*)

The VICE-CHAIRMAN: Mr. Clermont.

Mr. GRÉGOIRE: Have you completed with Mr. Rasminsky?

(*English*)

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I have just raised the question with our clerk on whether Mr. Rasminsky will be appearing again in connection with the Bank of Canada Act. If he is not, I have some matters I would like to discuss with him as I mentioned to you previously; but if he is returning I could dispose of them at that time and could give him an opportunity to prepare himself for them.

The VICE-CHAIRMAN: The Canadian Bankers' Association has been advised that they will be before the Committee this afternoon. Perhaps we could deal with them and ask Mr. Rasminsky to come to another session?

(*Translation*)

Mr. CLERMONT: Mr. Chairman, why not ask Mr. Rasminsky to come this afternoon, because the representatives of the Bankers' Association will be here this afternoon anyway.

(*English*)

Mr. CAMERON: I did not quite understand that.

Mr. CLERMONT: Mr. Cameron, I think we should continue with Mr. Rasminsky this afternoon. The reason is that if Mr. Rasminsky comes back next week I, for one, will be away with the agriculture committee.

I have a few questions for him, but if it is not possible to ask them—

(*Translation*)

Mr. LATULIPPE: I second the motion, Mr. Chairman, because I, also, have some questions to ask. I have not yet had a turn.

The VICE-CHAIRMAN: It has been arranged that the Canadian Bankers' Association be heard this afternoon. Mr. Rasminsky was told that he would be free this afternoon, and he has another engagement. I think that settles it.

Perhaps it would be preferable to ask Mr. Rasminsky to come to another session.

Mr. CLERMONT: I am very surprised, Mr. Chairman, that the Steering Committee should have thought that only two sessions would be sufficient to free Mr. Rasminsky from this Committee.

Mr. RASMINSKY: What is your estimate, Mr. Clermont?

The VICE-CHAIRMAN: When do you expect to be available, Mr. Rasminsky?

Mr. RASMINSKY: I have engagements this afternoon, and I have to go to Montreal later today and will be away tomorrow. After that I am available.

The VICE-CHAIRMAN: Could we take it for granted that you will be available to the members on Thursday morning

Mr. RASMINSKY: Yes, but I had understood you had made arrangements with the Minister of Finance.

The VICE-CHAIRMAN: Yes, but perhaps you could come as well.

Mr. RASMINSKY: This Thursday? All right, that is fine.

Mr. CLERMONT: Mr. Rasminsky, you asked me for how long?

Mr. RASMINSKY: Yes.

Mr. CLERMONT: Maybe if you give the explanation that Mr. Grégoire wants about that twelve and a half times—

Mr. RASMINSKY: I am prepared to take him to lunch!

The VICE-CHAIRMAN: The meeting is adjourned until 3.45 this afternoon.

AFTERNOON SITTING

The VICE-CHAIRMAN: Gentlemen, I will now call this Committee to order.

We have with us today the representatives of the Canadian Bankers' Association. On my right is Mr. Paton, then Mr. Lavoie and Mr. Coleman. I do not want to interfere with the way you are asking your questions but I would like to

invite the honourable members to try to refrain from asking what might be called repetitious questions, because we have many subjects to deal with today and we have two full sittings scheduled for this afternoon and this evening. Next Thursday we will have the Minister of Finance. As I said before, I would kindly invite the honourable members not to repeat questions that have already been asked by other honourable members.

I now ask the honourable members to indicate their intention to ask questions.

(*Translation*)

Mr. CLERMONT: Mr. Paton, is your Association, or certain members of your Association, aware of Bill C-261, an Act to establish a deposit insurance corporation in Canada and if so, do you have any general comments to make in connection with this Bill?

(*English*)

Mr. S. T. PATON (*President, The Canadian Bankers' Association*): Yes, Mr. Clermont. When we originally appeared before the Committee we submitted a brief in which we gave our views on the legislation as it was then indicated, and since Bill C-261 has had first reading in the House we have had an opportunity to examine it also.

I think the basic approach of The Canadian Bankers' Association in this respect is that there is an inequity in the proposed bill as it relates to the chartered banks. We feel, on the basis of their position alone, that there is clearly no need for participation in a deposit insurance bill. We well realize there is a problem but we feel that the deposit insurance bill is a rather massive operation to correct what might be considered to be a relatively localized problem, notwithstanding the fact that it is a vitally important one. I think we also recognize that our responsibility in the financial world of Canada, and the privileges that we have by virtue of being able to call ourselves banks, perhaps makes it necessary for us to view this legislation from a national standpoint rather than from perhaps a peculiarly selfish one and we well realize that if it is the policy of the government to proceed with this bill, we will co-operate, of course, to the fullest extent of the regulations.

We are concerned, as this is a matter of general public interest, because the cost of setting up this insurance falls squarely on the chartered banks' shoulders. As close an estimate as we can make at the outset of the actual premium is that it will range around $4.5 million to the chartered banks. We also estimate that if there is 100 per cent participation of the provincially-incorporated bodies, their premium might be roughly $1 million per annum. We are inclined to believe that there should be a better balance by way of assessing these premiums, not that they should be particularly weighted towards the smaller, newer and more needy provincially-incorporated bodies, but rather that perhaps the government of Canada should absorb part of the premium instead of directing it at the banking industry.

We feel that the basic problem—and I think this was brought out this morning during the questioning of the Governor of the Bank of Canada—is the question of getting proper supervision and proper regulatory control over all bodies participating in the financial industry of this country.

In general we think that perhaps there should be a more thorough examination of this matter in order to correct the problem, and this should be done in some way other than as incorporated in Bill C-261.

(*Translation*)

Mr. CLERMONT: With regard to the premium, one-thirtieth of one per cent, I believe, what sum would this represent for the members of the Bankers' Association?

(*English*)

Mr. PATON: It would cost the eight chartered banks initially roughly $4.5 million per annum.

(*Translation*)

Mr. CLERMONT: Undoubtedly, you are aware Mr. Paton of Clause 19, sub-clause 5.

(*English*)

Mr. PATON: Was your question, Mr. Clermont, what would it be at one-for-tieth?

Mr. CLERMONT: Yes, the first rate is either $500 or one-thirtieth. Is that not right?

Mr. PATON: I am not quite clear, Mr. Clermont; is it clause 19 to which you are referring?

Mr. CLERMONT: Yes.

Mr. PATON: I am having a little trouble with my transmitter.

(*Translation*)

The VICE-CHAIRMAN (*Mr. Laflamme*): Would you please repeat your question, Mr. Clermont?

Mr. CLERMONT: Yes. You said that at the rate of one-thirtieth of one per cent, the total cost, for the eight banks would be $4½ million. But I think that Clause 19, sub-clause 5 indicates a certain easing off respecting this amount, a certain reduction. Sub-clause 5, para (b):

(*English*)

Mr. PATON: I do not know if we have put a pencil to that figure, Mr. Clermont. I am afraid we have not done so. Mr. Perry tells me that according to our estimators it would possibly come down to an annual premium of $2 million after six years, on the basis of this sub section.

(*Translation*)

Mr. CLERMONT: Which would mean a reduction of more than 50 per cent?

(*English*)

Mr. PATON: Correct, after the expiration of six years.

(*Translation*)

Mr. CLERMONT: Nevertheless, for a human being, six years is a long time even though it does not represent too much for a bank. Well, last Tuesday the

officials of the Mercantile Bank came before this Committee and members of the Committee received suggestions from them and a memo of a group of Amherst businessmen, Amherst, Nova Scotia that is, was presented and on Page 1 thereof, I read as follows:

(*English*)

> The demand for the company's services grew and there was also a demand from the contractors and building suppliers for a longer term.

(*Translation*)

According to that letter, Canadian banks could not grant a loan to those firms for a longer period. They went to the Mercantile Bank and got a long term credit accommodation. I was surprised to read such a statement because why, if the Mercantile Bank, which operates in Canada with the same powers and reserves, is able to give a line of credit to these Amherst people over a long period. Why can the other seven Canadian banks not do so?

(*English*)

Mr. PATON: What was the name of the company that received the line of credit, Mr. Clermont?

Mr. CLERMONT: It is not a company, it is a group.

(*Translation*)

These are merchants from Amherst, who grouped together.

(*English*)

They call it the Amherst Central Charge Limited and, according to them, they have a regular line of credit with a bank, I think it is the Royal Bank, for short term loans to building contractors, but they wanted a longer term line of credit and, according to this, the other banks could not do it but Mercantile saw fit to make those kinds of advances.

Mr. PATON: Mr. Clermont, in answer to your question I would say that there is nothing that the Mercantile bank could do that any other chartered bank in Canada could not do. Whether they would or not is perhaps a question of credit judgment but the Canadian chartered banks, other than the Mercantile, are equally facile and equally capable of providing lines of credit to such a group as you suggest. Perhaps Mr. Coleman might supplement my answer, as you brought in the name of the Royal Bank, I think.

Mr. J. H. COLEMAN (*Vice-President, The Canadian Bankers' Association*): Mr. Clermont, I am not familiar with this particular instance. What I think you are saying is that this group acts as a secondary lender. This is a lender who borrows from someone else and lends the money out at a higher rate of interest to other people. I do not think it is the function of a chartered bank to provide long term loans to this type of an institution. I hope we turned it down, if we did. In my opinion it is certainly not the function of a chartered bank to make long term loans available to secondary lenders. There are too many other deserving borrowers in line for these funds.

(*Translation*)

Mr. CLERMONT: When Mr. Pope appeared before the Committee, he made certain statements to the effect that, at the last sale of wheat by the Canadian Wheat Board to Russia, the Canadian banks did not get the foreign exchange business because the rates and costs were too high compared to other banking or financial institutions. You might refer to the Minutes of Proceedings and Evidence, Pages 2207, 2208 and 2209 of No. 34 of the English text and in his Brief, Mr. Pope said that the Canadian banks did not give adequate service to businessmen and industrials to enable them to compete on the international markets. Does your group have any comment on such a statement?

(*English*)

The VICE-CHAIRMAN: Mr. Clermont, I am presently informed that Mr. Pope was completely wrong in asserting that, because the majority of loans for the—

Mr. CLERMONT: Mr. Chairman, I did not believe what Mr. Pope said, but I want the representatives of the Canadian Bankers' Association to give their comments on it.

Mr. PATON: I would be very glad to endorse what Mr. Laflamme said, Mr. Clermont. I completely doubt the veracity of Mr. Pope's statement. I doubted it when I read his evidence, and I would say it was completely without foundation.

Mr. CLERMONT: But did the Canadian banks sell some of that U.S. currency in order to complete that transaction with Russia or not?

Mr. PATON: The Canadian banks participated fully in that transaction, as they have done with similar sales of wheat in the past. I do not have the complete details of this last transaction at my fingertips. In fact, I could not have them as it would be a question of each individual bank's participation in this transaction. I feel quite satisfied and quite safe in saying that we participated satisfactorily and fully in this transaction, as we have done in past sales.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Clermont, would you allow me to ask a supplementary question of Mr. Coleman?

Mr. CLERMONT: With pleasure, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Coleman, I was interested when you said you did not approve of the bank making loans to secondary lenders.

Mr. COLEMAN: Long term loans.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Clermont was referring to the extension of the line of credit. Now, whether you call that—

Mr. COLEMAN: I thought he said long term loans.

Mr. CLERMONT: Yes. I understand that group obtained a line of credit of about $200,000 on short terms. Now, they wanted longer terms and they were turned down by one bank and then they went to the Mercantile Bank and received it.

Mr. COLEMAN: Our books are full of the short term umbrellas.

(*Translation*)

Mr. CLERMONT: Following your evidence before the Committee we had the visit of other witnesses and we heard the complaint that chartered banks

resorted to, what one could call, a "compensating balance". For instance, if an individual wanted a $100 loan, this company or person has to have 10 per cent of the loan as a deposit, without interest. This statement was made to the Committee at different times and two weeks ago we had representatives of Credit Unions and Caisse Populaires, other than those of the Province of Quebec, and some witnesses of that group made that statement.

(*English*)

Mr. PATON: Mr. Clermont, this is a subject which we touched on in several instances in our previous appearances before this Committee. We have also been conscious of the fact that it has come up rather frequently in the interim. I wonder if I might, perhaps just take a couple of minutes and try to summarize our position with respect to the general approach to compensating balances, as they have become known, and they are conjoined, I think, necessarily with the question of service charges. Some of my remarks will be repetitious, of course, but perhaps we should put them on the record so that we have the complete story.

As you are aware, the charging of a fee to the bank customer for services rendered is a long established practice. This is most general in the form of normal operating accounts: our current accounts, our savings accounts and our personal checking accounts. Relief from the service charge that we apply for the activity of these accounts is provided in relation to the free balances carried by the depositor, and I am referring mainly at the present time to personal accounts. As we have mentioned before, in a current account each $50 of balance is entitled to one free cheque, and in a savings the same is true for a $100 balance. Now as to the activity in our commercial accounts, there is a form—and I think we provided the committee with a copy—which perhaps on the face of it looks somewhat complicated, but once you have had it in practice it is not; it carefully gives credit to the customer for the balances carried and charges him on a fixed basis with the cost of the various services provided.

Also, I think there was a memorandum produced for the committee by one of your advisers with regard to the relative cost of operating an account in a Canadian chartered bank vis-a-vis an American; we, in turn, having had access to that memorandum found that we were not in entire accord with it and we prepared a short brief, a copy of which we provided to the chairman of this committee. We now have a copy available for the committee members.

This brief sets out a number of examples, showing typical cases where the cost of operating an account in Canada is contrasted or compared with the cost of operating an account in the United States. In some instances there is a variance in favour of one and in others a variance in favour of the other, but in balance I think you will find the Canadian chartered banks charges compare very favourably with those of our American counterparts. What we have established is that in both countries service charges and or compensating balances constitute an integral part of the methods of recouping costs.

Now getting to the compensating balances on loan accounts which I think is really the nub of the problem and on which we have had several discussions, we have—and we have testified to this extent—been using these more recently in Canada in connection with borrowing accounts. Following the substantial in-

crease in cost of money and administrative burden, it was necessary for the banks to identify the costs of these borrowing accounts. Some 23 per cent of the complete overhead of all the chartered banks is attributed directly to the supervision of our loan accounts, and it would be entirely unreasonable to have these costs spread across the whole gamut of our accounts without concern as to who was benefiting from the services provided. Therefore, during recent times when interest charges have been limited, due to this rigidity of our ceiling, and the cost of money has increased, we have not been able to recompense ourselves through this medium for the costs of operating these borrowing accounts. If and when the ceiling is removed,—and we hope that will be done in one step—there will be greater flexibility, and then the question of recompense to the banks for the services performed will vary customer by customer. In some cases they will be perhaps under an all-inclusive interest rate; in other cases it may be via service charges; it may be via a commitment fee, and indeed may well be by compensating balances. That sums it up to the best of my ability.

(*Translation*)

Mr. CLERMONT: I think, Sir, that you have mostly commented on the cost of operating, either a loan account or a current account. But the statements before this Committee were that the borrowers had to leave a certain amount as a deposit. I will take as an example, a loan of $100,000 would require a deposit of $10,000 in the account without interest, which could not be touched and my question refers to this. But in your comments, you dealt mostly with the cost of operating accounts, this was really not my question, Mr. Paton.

The question has already been asked of you, by me, for instance. But we have had statements by some witnesses to the effect that it is current practice in banks for a borrower to be compelled to leave such an amount in respect of a loan.

(*English*)

Mr. PATON: What I was trying to say, in reply to your question, Mr. Clermont, was that we gladly state that this situation undoubtedly does exist; it is not a rigid unilateral way of recouping the costs concerning this $100,000 loan. Now just putting a $100,000 loan on our books is not the end of that operation; the continual supervision required to make sure that that $100,000 is still a good loan is of vital importance to the bank and of vital cost to the bank. And if in coming to the banks for this $100,000 loan the bank has the alternative of saying "yes you may have it provided you recoup us with the cost of us operating this account through credit supervision and so on", or "no we cannot provide you with the funds", then the onus would be on the borrowers part to take the loan at the best terms he can get from the bank. It is not necessary that there must be a $10,000 balance held; it might well be through a commitment fee or through a service charge.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, the other item I would like to deal with is this: I believe that chartered banks in Canada have the right to obtain short term loans from the Bank of Canada, for a period of six months. Do banks make use of that right very often?

(*English*)

Mr. PATON: Are you referring to using the Bank of Canada as a lender of last resort, as we were discussing this morning, or a general lender?

(*Translation*)

Mr. CLERMONT: A general lender. I think that under the Bank of Canada Act or the Bank Act, chartered banks have the right to borrow or get advances from the Bank of Canada on security.

(*English*)

Mr. PATON: That is correct. The chartered banks may borrow from the Bank of Canada. I should point out that these are secured loans. These are loans generally against Government of Canada securities. There may be other securities; in fact, acceptable securities are spelled out in the Bank of Canada Act.

Mr. CLERMONT: Do you use that right often?

Mr. PATON: "Often" is a relative term; I would say the answer to that would be "no".

(*Translation*)

Mr. CLERMONT: My last question, Mr. Chairman, is in connection with the clearing house system.

(*English*)

Mr. PATON: Excuse me, Mr. Clermont. Mr. Coleman suggested he would like to clarify one point.

Mr. COLEMAN: Could we clarify one point about Chartered Banks borrowing from the Bank of Canada, Mr. Clermont? This is exactly what we can do and what we cannot do.

Mr. W. T. G HACKETT (*Chairman, Canadian Bankers' Association Bank Act Revision Committee*): Loans obtained by the chartered banks from the Bank of Canada—and I should add that this accommodation is availed of fairly infrequently—are made by the Bank of Canada on the basis of accommodation for one week. The bank may pay the loan off in a shorter period than a week, but if it does so it is still charged for the full week. Under the procedures of the Central Bank—and this is not a legal matter; it is a procedural matter—any second use by a bank of the lending facilities of the Bank of Canada in any one month, or indeed any renewal of the first loan made in the month, is charged for at a penalty rate over and above the normal rediscount rate or bank rate, whatever it may be at that time.

Mr. CLERMONT: Mr. Chairman, I have sent a copy of the letters that we have received about that special line of credit to Mr. Coleman. Is Mr. Coleman now in a position to add to what he said before?

Mr. COLEMAN: Yes. Thank you for sending this up, Mr. Clermont. I see that we have a line of $200,000 with this group now, and it is on a short term basis. What they have additionally now is a $200,000 five year loan from the Mercantile Bank. And as I said before, in my humble opinion, it is not the function of a chartered bank to provide long-term loans to secondary lenders. I think we must try to the best of our ability to do what the Governor brought out in questioning by Mr. Cameron this morning; we must have lines of credit available when they

are needed, and frequently they are used. I do not think we should make a long-term loan to a secondary lender because I do not think that is the function of a chartered bank. Mr. Paton, I do not know how you feel about that, but that is my personal view.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, my last question is in connection with the clearing house system. Many briefs before this Committee brought out the grievance that they did not have access to the clearing house system, and I think that according to present legislation, only the chartered banks have the right to participate in clearing house services. Would there not be a way, without having to amend the Act, to enable other institutions such as Caisses populaires, credit unions, trust companies to participate, to have the privilege of participating in the clearing house system?

(*English*)

Mr. PATON: We have studied carefully Mr. Clermont, the representations made with respect to the clearing system. We are confident that there is a substantial misunderstanding of just what the clearing system consists of and what privileges are peculiar to the chartered banks. I will see if I can summarise our view point, and if we get into further technical discussion perhaps I might get one of our experts to come up and discuss it more clearly.

The Canadian Bankers Association Act authorises the Canadian Bankers Association to form clearing houses. There are only 51 clearing houses in Canada. No chartered bank must belong to these clearing houses; they may do so but if they wish to refrain from belonging it is their privilege. The actual cost of running these clearing houses is minimal in relation to the complete cost of the clearing system which is the basic method or form for interchanging millions of cheques daily throughout this country. There are some 450 points across Canada which participate in the clearing system. Any place where there are two banks in any town have their clearing system. The cost of this clearing system, the collating of cheques, the transmission of them from source of deposit to source of payment, the clerical salaries, and the equipment cost, amounts to some $33 million per year. The costs of operating the clearing houses is $60,000. The existence of clearing houses is merely a convenience. They are not buildings; in many cases they are basements of branch banks or a manager's office. They are not separate buildings but mere space where bank clerks—I am thinking of the evidence last week; these bank clerks can be pretty important—meet and exchange cheques and settlements for clearing house balances, one bank vis a vis the other.

If any other body of banking institutions or near-bank institutions, wish to set up a clearing system and clearing houses themselves, they have full power to do so. In fact, there are some in existence. Some of the credit unions have them. The Porter Report referred to the possibility of such clearing houses being operated under the Bank of Canada. In our opinion this represented a pretty serious misunderstanding of the functions of a clearing system. All you would be doing would be superimposing on an existing system another system or several systems that would be less efficient; would be costly to the individual groups concerned, and not in any way improve the efficiency of clearing settlements between debtors and creditors as we do currently in Canada.

To my knowledge, no responsible institution has been refused clearing house privileges. There is a responsibility attached to being a member of a clearing house: You must be able to provide evidence that you can meet your clearings. If the clearing house system was thrown wide open then obviously there could be repercussions, and there could be a loss of confidence in the use of the clearing system. The financial responsibility must be there. I think perhaps the near-banks that have raised this question overlook the fact that it is impossible to have free membership in a clearing system.

I was here when the evidence was given by the CUNA people and there was an indication that the charges for clearing houses membership privileges were imposed arbitrarily practically overnight by the chartered banks on members of the CUNA organization. This is far from correct. These charges—which incidentally have not been changed since 1958, when they were assessed after many months of negotiation between the chartered banks and the interested near-banks—were arrived at at a time when, they merely covered the cost of the services being provided. Nine years have elapsed and there has been no change in these charges, which obviously indicates the chartered banks have not been concerned month by month and year by year as to whether or not they are getting recompensed for the services performed. I think a witness from one of the junior trust companies suggested last Thursday that these charges changed every year. This is not so. The table of these charges is available at any time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is a complete contradiction of the evidence that we had the other day.

(*Translation*)

The VICE-CHAIRMAN: Mr. Clermont.

Mr. CLERMONT: My proposal, if the Committee has no objections, would be to Mr. Paton who mentioned a schedule of banking costs. Could this schedule not be tabled for the Committe? I think you have a copy of it?

(*English*)

Mr. Paton, I understand that you have a new chart for the bank charges and that the Chairman had one copy.

The VICE-CHAIRMAN: I have not a copy of that.

Mr. CLERMONT: Is that not correct, Mr. Paton.

Mr. PATON: I think we are speaking of two things, Mr. Clermont. I mentioned that we had provided the Chairman with a summary of the relative costs of operating a bank account. We have that available and can distribute that, with the Chairman's permission, at the present time.

Mr. CLERMONT: I will make a motion if there is no objection.

The VICE-CHAIRMAN: Personally I have no objection to this memo being circulated among the members, but if it is going to be part of our proceedings I think we might have a look at it and hear any comments members may wish to make. I have no objection to having those papers distributed among the members but I am not prepared to have them printed.

Mr. CLERMONT: Why not?

(*Translation*)

I have moved it, but if I have no seconder—

(*English*)

Mr. LAMBERT: I will second Mr. Clermont's motion.

Mr. CLERMONT: I have moved a motion, Mr. Chairman, and it has been seconded by Mr. Lambert.

The VICE-CHAIRMAN: Mr. Clermont has moved, seconded by Mr. Lambert, that this document form part of our records.

Motion agreed to.

The VICE-CHAIRMAN: With your permission I now will ask Miss Prentis to make some comments on the papers that are going to be part of our proceedings.

Miss M. R. PRENTIS (*Research Adviser to Committee*): Thank you, Mr. Chairman. I have only one brief comment of this memo. I would like to say that from my own point of view I appreciate the work that has been done. I feel that this additional information represents a great deal of work which would have been impossible for us to do with our limited resources. I would say that in general the letter that the Canadian Bankers' Association has sent the Chairman supports, in general, the points I made in my own very brief summary based on the work that I was able to do. The only point on which I tend to disagree with the Canadian Bankers' Association is that they suggest that judgment is not possible on page 4. I quote:

> It follows that it is just as impossible to make a comparison of the general level of service charges in U.S. banks with the general level of service charges in Canadian banks.

I think that some judgment is reasonable and possible on the basis of the material available to us. Those of us who work in the field of statistics know that you just cannot wait for enough statistics to make a sound judgment that is absolutely incontrovertible; you have to make judgments on the basis of inadequate statistics a great deal of the time. I tend to feel that it is possible to make judgments on the basis of the material that we have. Thank you, Mr. Chairman.

Mr. LAMBERT: Mr. Paton, undoutedly you have had drawn to your attention the testimony of Professor Caterina with regard to disclosure of information in banks' financial statements. I was wondering whether you are in a position to comment on these remarks or observations of Professor Caterina and whether the banks had ever considered that they could make their published public statements much more meaningful for the ordinary investor and for the public as a whole. Also, perhaps you would like to comment on the remarks made by Professor Caterina with regard to the disclosure of drawings on inner reserves and other matters so that you can really tell whether a bank is operating efficiently or not?

Mr. PATON: We have noted Professor Caterina's brief and also his evidence, Mr. Lambert. The banks are perfectly willing to provide the information. I am not talking about reserves at the moment; I am talking about a breakdown of the assets and liabilities, which is one of the areas on which he concentrated. I think he indicated that perhaps the personal loans of the Canadian banks might be

shown separately from general loans. That was one of the areas that he referred to in his evidence; and also a suggestion, perhaps, that the investments and the securities held might be broken down into one or more classes. I think it is very largely a question of how far does one go to reach whatever goal is required. If the Inspector General in his wisdom would wish us to produce statements in more detail with respect to a breakdown of the respective assets and liabilities then I doubt very much that there would be very strong opposition from the chartered banks. I think there is an area of usefulness that has to be weighed against the time required to go into this greater detail. The more information that is required, the more costly the operation. I am not saying that perhaps this would suddenly inflate the banks' costs but in general the whole trend seems to be perhaps, a desire to get information rather than whether or not is particularly germane to any specific purpose.

Mr. LAMBERT: I think somehow you got the wrong impression of what Professor Caterina was after and which personnally, I have a lot of sympathy for. You already do it as a matter of internal management; of this I am sure, or else there is something wrong with bank management. Maybe the banks are their own worst enemies in this regard, but they are too reticent in advising the public of their operations—not only the public at large but their shareholders. There is a way of telling the story of your operations. Instead of these great big box car figures, which ultimately defeat any meaningful purpose, you should break them down because you have something to sell. I have always wondered why the banks take the attitude that they do not have to sell something. They could sell themselves by doing it through much more meaningful and up to date forms of financial statements.

I would put it to you that there is not this amount of work. They are the published statements that you put out at the end of the year, and I have not them all here. But we see this in the many more business corporations that are giving us a much truer picture, which the ordinary layman can understand—and I include in there all Members of Parliament who are sitting on banking committees as well as the great majority of bank staffs too, managers and district office personnel. This is what Professor Caterina was after, in addition to which you could make appropriate statistical studies of the performance of our own banking system. And this is what I am after. I think he has a very good point here, and it is not something that the Inspector General requires. I would think the banks would be the first ones to come forward and do this rather than be forced into it by law or by the Inspector General. I do not think it is a matter of control or inspection, Mr. Paton, it is a question of selling yourselves to the public. That is the point I would like to make. I am sorry if I am making the point, but you are not.

Mr. PATON: I would just like to express my appreciation for your making that point. I think, speaking for myself and I am sure for the others, Mr. Lambert, that we know of our shortcomings in this respect. We have talked of them. We have heard on more than one occasion about them and I think I am correct in saying that there is a trend toward correcting this deficiency.

Mr. LAMBERT: Of course Professor Caterina included in that the question of inner reserves. We have not discussed that and I have not brought that up. Now,

you have seen the pros and cons of the arguments that he has made in connection with the disclosure of the drawings on inner reserves. What are your comments, or are your views still the same as you expressed them initially? We heard of one of the large banks—it may have been the Morgan Bank—in the process of putting out a prospectus, sustained a rather serious loss on which they had to draw on inner reserves, and the question was whether they should or should not disclose it? They disclosed it but in that way I think they took the public into their confidence. Would not the disclosure of drawings from inner reserves without impinging, shall we say, on the solid position of a bank, be a question of public relations and taking the public into your confidence? I am rather impressed with the idea that if you put up walls and curtains around everything you breed suspicion. I have made my comments; what are yours?

The VICE-CHAIRMAN: Do you have any comments?

Mr. PATON: Yes, I think I probably should have, Mr. Chairman. The short answer to the initial part of your question, Mr. Lambert, is that our stand is unchanged from the one we took when we were here before, with regard to the suggestion that our inner reserves in total should be disclosed. I think that this was the topic we discussed specifically in our previous evidence. Bill No. C-222 covers new schedules O and P which were not hitherto in the Bank Act. Schedule O covers the disposition of the earnings year by year and the full transactions involved in this connection. Schedule P covers the complete statement of the inner reserve position of the banks individually. Each bank would have to complete both forms.

I think the Association would like me to take the approach that for the reasons that were covered quite extensively in previous Bank Act revisions it would be inimical—not necessarily in the banks' interests primarily but in the interests of the public—to have the information as requested in Schedule P provided.

Perhaps I will have Mr. Coleman and Mr. Lavoie comment on this point also because there might be a slight difference of opinion in this connection. Speaking for myself I am less inclined to oppose schedule O, which is the schedule that covers the disposition of each bank's earnings year by year. Mr. Coleman, would you like to comment on that, please?

Mr. COLEMAN: It is very hard to disagree with Mr. Lambert's very eloquent presentation. I think the trend is toward more disclosures in all business. I think banks are in a rather peculiar position in this regard and there have been good reasons. This subject has been argued pro by, at least one Minister of Finance and by at least one Inspector General and other people more eminent than myself, and I think with good reason. I do feel that the trend is toward more disclosure. I think—and this is a personal opinion—as time goes on that you certainly will see some of the banks disclosing more and more all the time. However, I think that there have been very good reasons now as in the past for the disclosure of some information not being made to the public.

Mr. PATON: Mr. Lambert, Mr. Perry has just handed me an official Congressional report on the actual position in the United States which might be of

interest. It shows that perhaps the Canadian banks are somewhat more advanced than their counterparts. I will quote this, if I may:

> Furthermore, stockholders of banks in many cases receive little or no information concerning the financial results of their bank's operations. Less than 50 per cent of all the banks publish annual reports. Of those who do publish annual reports, 29 per cent do not report the size of their valuation reserves. Although non-reporting is primarily a characteristic of the smaller banks, there are substantial numbers of the large banks who do not publish annual reports and even if they do, they may not reveal the size of their valuation reserves.

Mr. LAMBERT: But you would agree, Mr. Paton, that so many of the smaller banks in the United States are closely-controlled family operations or controlled by a handful of shareholders in a small city. They play their cards pretty close to their chests; but they are not widely held public bodies like our own chartered banks?

Mr. PATON: That is correct but they do refer to large banks too.

Mr. COLEMAN: Perhaps, Mr. Chairman, I should have mentioned one other point which may be well known to members of the committee but not be generally known by the public and that is that nothing is held back from the Inspector General—nothing. He knows everything that goes on in our different banks; every account that is the least bit risky. He is fully knowledgeable of everything that goes on in all the banks.

Mr. LAMBERT: I think you would agree, Mr. Coleman, that the office of the Inspector General is as loquacious as a beartrap.

Mr. COLEMAN: Well I thought I should perhaps make the point in case in some area it might be felt that the banks have information that they disclose to no one. Now I know that you know differently.

Mr. LAMBERT: I do not think it has ever been suggested otherwise in this Committee. While these disclosures are made to the Inspector General it stops there.

Mr. COLEMAN: Well, from the standpoint of the safety of the depositors he is the guardian of the depositors' funds; he is the man who ensures that the depositors funds are safe by a very critical and detailed examination of each bank's affairs.

Mr. LAMBERT: If I may switch to another subject, Mr. Chairman, there was some discussion about the changes brought about by clause 88(5) and one or two witnesses—particularly witnesses appearing on behalf of the Federation of Agriculture—suggest that there should be much wider application of the so-called trust on behalf of the producer involved in clause 88. This is a contention, of course, which I think is highly questionable. What would your comments be as to the effect upon more and more, shall we say, restrictions on bank security under clause 88 and what the effect of such restrictions would be as to the volume of lending or whether it would just be something that, in the end, would be a dead article in the act if it went as far as is suggested by some of the witnesses.

Mr. PATON: We feel, Mr. Lambert, that clause 88 is a very, very worthwhile piece of security in the operation of the banking industry in financing the Canadian economy. It is a long-dated and important section of the Bank Act which has been up for many revisions, and we would deplore any further effort to widen the priorities that are already shown in Bill No. C-222. We have gone into this quite extensively. When Bill No. C-5 was being considered by this committee some years ago we appeared before the committee and gave our thoughts on the legislation. Since then we have had meetings and discussions in connection with this particular problem, and I think I am correct in saying that we are quite prepared to live with the priority presently included in Bill No. C-222. In doing so I have to say that in assessing the relative credit we would be prepared to extend the processes involved in this area we must be consciously aware that there would be a substantial additional preferred creditor in existence at all times. That is really the feeling that we have with respect to this legislation. We are satisfied to continue operating under it and feel that we can still do a particularly satisfactory job in the area of financing under the security, but I think it stands to reason that the more inroads that are made into the security and the more inhibitions that are written in must have an effect on our judgment in considering applications for credit under this section.

Mr. LAMBERT: Now dealing again with clause 88, Mr. Ziegel did make some comments about the description of the property being more particularized under a Notice of Intention to grant credit. I notice in looking over the various notices of assignment or whatever you want to call them, as required in Bill C-222, that these do provide for a description of the property and the designation of the place or places where it is located. But it seems that there must be some occasions where because very, very general terms are used the farmer granting the security under clause 88 comes up against a requirement for credit on another source and he is simply told that "you are covered, everything is covered", because maybe a credit bureau has picked up the notice either through a Dun and Bradstreet bulletin or by regular visits to the Bank of Canada office where you file the notices under clause 88. What have you to say in regard to that? What if a man were to say that he was giving cattle as security but it was described merely as "farm animals". Could not his hogs or other farm property become involved.

Mr. PATON: I wonder, with your permission, Mr. Chairman, could I ask Mr. Duffy to join me? Mr. Duffy is closer to the actual operation of clause 88, security.

The VICE-CHAIRMAN: Mr. Duffy, would you care to make a statement?

Mr. PATON: Mr. Duffy is the Superintendent of the Canadian Imperial Bank of Commerce.

The VICE-CHAIRMAN: Did you understand the question asked by Mr. Lambert?

Mr. J. F. DUFFY (*Superintendent, Canadian Imperial Bank of Commerce*): Yes.

The VICE-CHAIRMAN: So you are prepared to answer it?

Mr. DUFFY: Yes. Under the Bank Act the bank is required to register and give the Notice of Intention to borrow under clause 88 and the bank is required

to register this Notice of Intention at the Bank of Canada, so that the public record shows that the borrower is borrowing from the bank under clause 88, and the information as to the extent the security is covered is contained on the assignment of the merchandise which is held by the bank. Therefore, if you are dealing with a bank borrower who is borrowing under clause 88, you could ascertain this from the public record of his Notice of Intention to give security. As to the details, if your interest went further, in the manner in which Mr. Lambert mentions, where one wants to know precisely what security the bank was holding from this borrower, then this information is always held by the bank. I will grant you that the details of the security the bank holds on the merchandise which is pledged is not the sort of information that the bank will give out to any casual enquirer at the counter because this is a matter of confidential relationship between the bank and its customer. Perhaps I am going too far here but I would suggest that if the party who is interested had a right to know exactly what merchandise was covered, or for purposes of furthering his business transactions with the borrower it was necessary for him to know, I presume that they could go to the banker together and the borrower could give the banker permission to tell his prospective creditor what the extent was of his liability at the bank in the way of what merchandise is pledged. Does that answer your question Mr. Lambert?

Mr. LAMBERT: Yes. It exactly confirms the point that I want to make in that I do not think that this is right. I agree with Mr. Ziegel; it should be no more difficult for the individual to go along to any district Registry Office where there is filed a chattel mortgage which spells out precisely the assets that are covered by chattel mortgage and obtain the nature of the security that was assigned to the bank than it is for myself, as a solicitor, or any interested party willing to pay the inspection fee. For instance, department stores have to file conditional sale agreements on major appliances. Finance companies do it in order to protect the priorities, in the same way that the banks do in order to protect the priorities. Because they have to file a copy of the actual mortgaging document, the public knows immediately what goods are covered by a security and, therefore, the creditor is not guilty of holding out to the public in general that the one in possession has got these goods and is the owner thereof. I find it a little difficult that, say, an individual dealing with a farmer who has given security under clause 88, has to instruct his solicitor or himself go to the Central Registry of the Bank of Canada in that locality, see that there is a notice, then go back and get an authorization to visit a branch bank to get the details.

Mr. DUFFY: I did not suggest that this happens very often, Mr. Lambert. I did not suggest that we were faced very often with customers coming in and asking for the description of the security we hold from an individual borrower. Also, a further point I would make is that as opposed to the individual appliance or vehicle, where description is rather a simple process, the main purpose of clause 88 is to handle, in an assigned way as a security, a wide variety of goods in the manufacturing process of a changing nature, and where the machinery of always providing an adequate or complete description would be a very heavy imposition on the bank or the borrower because of the continuing changing nature of your security.

Mr. LAMBERT: This might be so in the case of a manufacturing concern but I am thinking of the farmer, for instance. It is no more onerous to file an extra copy of the assignment that he gives in that form and the act of filing that along with the Notice of Intention.

Mr. DUFFY: I think it would add greatly to the burden where you were required to give details of an individual appliance or an individual piece of security. But I can think of many very large manufacturing operations being conducted under clause 88 where it would be difficult for the bank to keep up with the changing nature of its security and always insuring that a description of the security was on record, if that is what you mean. In fact, I think the process would get very burdensome. I am thinking of a lumber manufacturing operation, from the logs through to the finished product—to the toothpicks that somebody mentioned the other day. At the moment we show that the customer is borrowing from the bank, under clause 88, and a request for details of the bank security from week to week would quite likely show quite a different picture.

Mr. LAMBERT: I do not want to engage in a quibble here, but I still feel that it does not go beyond the powers of description in general terms of the nature of the assets that are being covered.

Mr. DUFFY: In general terms, yes.

Mr. LAMBERT: In general terms, it could be in the form of lumber in process or something like that—just general terms. I do not want to make any more of it, but I think that something better could be done in this regard, in so far as the public is concerned. I do not want to get into a legal dissertation here but the bank by leaving the goods in the hands of the individual is really holding out to the public that the individual who has them in his possession is quite likely the owner and unencumbered.

Mr. DUFFY: He is the owner is he not?

Mr. LAMBERT: Yes, he is the owner. This is part of the doctrine of holding out and this is why you have to register chattel mortgages and other things at a central registry and define them very carefully so as to, shall we say, withdraw yourself from having held out to the general public that Mr. X is the owner and has a clear title to certain chattels.

Mr. DUFFY: I think the only other comment that I could make that I have not made up until now is this. Taking the United States as an example, where for years they encountered difficulties in inventory financing by reason of the fact that there was a great variety of state laws, some eight or ten years ago certain legal minds and bankers, taking section 88 as a guide, introduced the uniform commercial code, which was largely aimed in the direction of simplifying lien procedures to make it more convenient for banks and other lenders to finance inventory in the process of manufacture.

Mr. LAMBERT: I have another question, Mr. Chairman, respecting deposit insurance but I am prepared to yield to anyone else who has a question to ask.

The VICE-CHAIRMAN: Perhaps there are some supplementary questions. Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, Mr. Chairman.

Mr. Paton I would like to bring you back to the question of the clearing house arrangements which we were speaking about just now. I understoood you to tell us just a few minutes ago that the charges for clearing house facilities that are made by the Bankers' Association to other institutions were not imposed by the Bankers' Association but as a result of consultations with these other institutions. Did I understand you correctly?

Mr. PATON: That is correct. Consultations between the Bankers' Association and the near-banks concerned.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you read the proceedings or were you present at the time of the appearance of the CUNA representatives?

Mr. PATON: I was here, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then I suppose you will recall what appears on page 2530 of our proceedings of January 17th when the Chairman, Mr. Gray, said to Mr. Tendler, who is the manager of the Saskatchewan Co-Operative Credit Society and Vice-President of the Canadian Co-Operative Credit Society the following:

> I would like to clarify one or two points myself. At the moment, with respect to the regulations, charges and limitations involved in the clearing house system, you have no voice whatsoever in the decisions?
>
> Mr. TENDLER: That is right.
>
> The CHAIRMAN: You are just told what you are going to have to put up with?
>
> Mr. TENDLER: We were presented with a schedule of charges, which I referred to as Schedule B; this was presented across Canada to the various credit union organizations and these are the charges which will be made.
>
> The CHAIRMAN: You are not represented in any executive which is in charge of managing the clearing system?
>
> Mr. TENDLER: No.

Then Mr. Tendler was later asked if he had any way of knowing to what extent the charges imposed by the chartered banks for clearing represent only the cost of the services rendered, or to what extent they may include a profit in addition to the cost. Mr. Tendler said:

> No, Mr. Chairman, we have no way of knowing. We said we would be interested in paying our share of the cost; if it is more that is fine, and if it is less that is fine.
>
> The Chairman: Have you asked them?
>
> Mr. Tendler: Not recently.

And another witness said:

> The question was certainly asked originally and the chartered banks indicated that this was simply a recovery of their own costs.
>
> The Chairman: Did you ask them to show you the figures?
>
> Mr. Ingram: Yes, but these were not available.
>
> The Chairman: Do you mean it was not available in general, or they

would not show them to you?

Mr. Tendler: Well, they were not available.

Mr. Ingram: They just made this report available.

The Chairman: To whom?

Mr. Ingram: Well, to our group, or our delegation, that has met with officials of the Canadian Bankers' Association at that time.

Now, it would appear that according to these witnesses, Mr. Paton, although they met with you, they apparently had no opportunity to discuss the charges that were to be made. They were merely presented with a scale of charges, and that was that. I am wondering how you can explain the discrepancy between your evidence and that of Mr. Tendler and Mr. Ingram.

Mr. PATON: My interpretation of the evidence as I listened to it, Mr. Cameron, was that this arrangement had been very summarily presented to the members of this particular body, the credit union, and there was relatively little, if any, discussion. The point that I would like to make is that was not so.

I have in front of me a letter dated November 17, 1958, addressed to Mr. W. E. McLaughlin, then assistant general manager of the Royal Bank. Perhaps, as it is a relatively short letter, I might read it to you in its entirety rather than just read certain extracts.

> May I on behalf of the provincial central credit unions and co-operative credit societies express to you and through you to the members of your Committee of the Canadian Bankers' Association, our thanks for the kind hospitality which was extended to us during our meeting on the 10th of November in Toronto.
>
> The members of our group have asked me to acknowledge the pleasant atmosphere in which all the negotiations were conducted since it was first agreed that we should meet for this purpose following our meeting in Toronto on the 27th of October. We are particularly appreciative of the arrangements which you made for that October meeting on such very short notice, and we extend our thanks to Mr. Smith and the other members of the Toronto section of your Committee for the friendly and understanding hearings which they gave us.
>
> Although our common and prime purpose was to conclude an agreement satisfactory to both groups, we were particularly heartened by your opening remarks, as Chairman, of the goodwill and understanding of the banks towards the credit union movement. Your assurance that the Canadian Bankers' Association recognizes the place of credit unions in the Canadian economy, and that you completely refuted any suggestions that the bankers were unfriendly towards the issuing of orders by individuals upon their credit unions, served not only as an important contribution to our mutual understanding, but also established a sound foundation upon which negotiations could be conducted.
>
> It was suggested by one of the members of your group that our respective purposes might be well served by the establishment of some liaison between us. In our opinion there is sufficient merit in this that we are prepared to consider the appointment of a small committee for this

purpose. Certainly this should make for a broader understanding of each other's functions.

Mr. McLeod indicated at our meeting that he might be good enough to send a draft of the revised proposal to us. We would welcome an opportunity to review it before the final form is drawn and instructions issued. You will appreciate that we are presently in the throes of preparing instructions to member organizations for release when your branch offices have been advised. It is rather important that we are "on all fours" before this takes place, and we would be pleased to hear from you at your earliest convenience,

Yours truly,

J. R. Robinson,
Manager of the British Columbia
Central Credit Union.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is the British Columbia credit union?

Mr. PATON: Yes, the B.C. Central Credit Union.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This was nine years ago?

Mr. PATON: November 17, 1958.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Eight years ago.

Mr. PATON: Yes, at which time these charges were instituted, after numerous negotiations had been satisfactorily conducted.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have no similar correspondence from other sections of the credit union movement in Saskatchewan?

Mr. PATON: Mr. Perry says that Mr. Robinson was acting as head of the group that were negotiating for the credit unions across the country.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): At that time what they referred to as Schedule B was enacted and decided upon?

Mr. PATON: Enacted and decided upon and has remained in status quo since that time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have there been any further meetings or further negotiations to change the rate they pay?

Mr. PATON: No. There have been no further negotiations to my knowledge with respect to adjustment of these rates.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Another piece of evidence that Mr. Tendler gave us which I would like your comment on was in answer to a question by Mr. More:

> Mr. More (*Regina City*): Gentlemen, you referred to Schedule "B"; is this a special schedule that is presented to you, or is this the same schedule required of near banks in their clearing?
>
> Mr. Tendler: No, I would have to say it differs; the caisses populaires have a different one than we do.

Now, can you explain why that is so? I presume that Mr. Tendler knew what he was talking about as they were here representing both caisses populaires and credit unions.

Mr. PATON: I have no knowledge which schedule is the better one in so far as the participating members are concerned, Mr. Cameron, but I would say that the schedules eventually decided upon for each body were the subject of lengthy negotiations along the lines indicated by this member of the credit union with each group.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But you have no idea what the difference may be between the treatment of the caisses populaires and the treatment of the credit unions, and why there is a difference?

Mr. PATON: The variance in the charges, Mr. Cameron, is related to other factors, such as credit balances, etc., carried by the different groups. We do have, and I am not sure if the Committee has this, a comparative schedule here which covers the charges to credit unions, caisses populaires, mortgage loans and trust companies, and we would be very pleased to submit this to you if you would like—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And that was made available to the various institutions?

Mr. PATON: It was not necessarily comparative; that is to say, the over-all charges were not necessarily provided to each group of institutions.

The VICE-CHAIRMAN: Mr. Cameron, would you agree to having this comparative schedule of the principal charges made to near-banks become part of the record?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Oh yes, certainly.

The VICE-CHAIRMAN: It is agreed.

Mr. PATON: I might say that this information was shown in our submission to the Royal Commission at the time we produced that document.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I notice in the evidence of the credit unions that the witness said that they had no means of knowing whether these charges merely represented a recovery of costs, because the banks provided them with no figures to indicate what the costs were. Do the banks have in their possession any figures that would indicate what it costs them to operate the clearing systems?

Mr. PATON: We have the totals. You want to know if we have the make-up of these totals, Mr. Cameron. As I mentioned earlier, the total cost is $3.6 millions, according to our calculations, as opposed to a revenue from this source of $1.8 million. Those are the latest figures. I do not have with me, nor do we have available—and I stand to be corrected—the working papers that produced these costs. I can assure you that in any costs we do produce we endeavour to be completely factual.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You made two comments earlier, Mr. Paton, when this matter was brought up that interested me. I understood that one was that credit unions can and indeed have in certain areas set up their own clearing system. Did I understand you correctly?

Mr. PATON: That is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do they not at some point have to deal with the clearing system of the chartered banks?

Mr. PATON: Yes, that is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So actually they cannot set up their own clearing system?

Mr. PATON: Well, I would disagree there. They can set up their own clearing system to produce a certain effect and if they so wished, Mr. Cameron, they could proceed to the final conclusion of obtaining settlement of all bank orders, etc., if they wished to do it in a very cumbersome manner. I think the benefits derived from using the clearing system which is the result of our widespread branch operation would so far outweigh any possibility of their being competitive that it would be the essence of poor judgment to try to complete their own system right through to the final end of obtaining settlement.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The other statement which you made was that one of the prerequisites of being a member of the clearing house association would have to be that the individual institution would be able to guarantee that its cheques would be met. Is there no means by which the Bankers' Association could admit such organizations as credit unions or trust companies that are under almost as rigid supervision as your own? It struck me as rather strange that you should place such emphasis on this when we were talking about institutions that are extremely sound. Would you object to an amendment being made to the Bankers' Association act which would permit the membership of the credit unions' central organizations?

Mr. PATON: I would certainly hope that there was no inference in the comments I made as to the creditability of credit unions throughout Canada. At no time would I want to be on record as even implying that, because I am fully aware that this is not the case, Mr. Cameron. What I was trying to get at is that there are some 230 non-members of the clearing house. The financial responsibility attached to this membership has to be considered at all times and this is without reflection on any part or any segment of this group.

There have to be credit balances carried by these members—I do not like to refer to them as near-banks—with some institution, and in this case a chartered bank. The alternative would be for them to carry balances with the Bank of Canada and provide their settlement through the same media as the chartered banks. I think it would be very largely a question of the ability or the desire of these indirect members of the clearing house to absorb their share of the costs of this clearing system. I think it would be inequitable if they should come in directly as members of the clearing system and participate, with relatively little contribution to the costs, in the full benefits of a system that is provided by the chartered banking group.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No. Certainly the position that Mr. Tendler took was that they certainly were prepared to do this. They would be interested in paying their share if they could find out what their share should be.

Mr. PATON: I think I could assure Mr. Tendler that the costs would be very, very much in excess of what they are looking at under the present situation. I would like to assure you that there has been no effort at any time by the chartered banks to sit on top of this whole situation and dispense favours. We are very happy to provide these privileges. It is a developing operation, as is evidenced by the number of members which there are on this basis.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I conclude this part of my questioning, Mr. Paton, with this question. As you apparently are operating an onerous and expensive operation, I suppose, the Bankers' Association would support the recommendation of the Porter Commission that the central bank should undertake this onerous and expensive function?

Mr. PATON: No, sir, we would not support it. We would feel—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have a yen for martyrdom?

Mr. PATON: Not particularly, but I keep coming back to the comment that you made yourself in prior hearings once or twice that we have to pay for the privilege for having the word "bank" after our name. I think you commented on that on more than one occasion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not quite see its relevance to this particular proposition. I admit I am a little puzzled, Mr. Paton. You have laid great emphasis on the fact that it is extremely expensive for the banks, that you lose money on it, and yet you tell me that you are opposed to being relieved of the burden. Now, this raises a question in my mind. What is the purpose for which you want to keep control of this operation?

Mr. PATON: I think the answer, Mr. Cameron, is that this is the banking system. This is the banking operation. This is our function.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is part of it. The other part of it is the central bank.

Mr. PATON: Correct. But we are also completely convinced that there is no other system that could be substituted for the present system, as it is presently constituted, at a lesser cost to the participants in the system, which inevitably means a lesser cost to the Canadian public.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This still leaves me with that question in my mind, Mr. Paton. I can only conclude that you have a masochistic desire to punish yourselves and keep this onerous and expensive burden, which you have told us it is and that you do not make a nickel, and I am quite prepared to agree that this is probably the case, but I would like to know why you want to retain this particular operation in your hands?

Mr. PATON: I would say, quite unreservedly, Mr. Cameron, that if there is a better system available in which we can participate at a lesser cost and which will be equally effective, we would be delighted to co-operate in producing such a system.

Mr. COLEMAN: I will vote for it. Perhaps you may have missed one part of Mr. Paton's comment, Mr. Cameron. I think you said, Mr. Paton, that you felt that the Porter Commission may have been labouring under a misapprehension when they suggested that the Bank of Canada would take over the clearing system. There are only nine or ten Bank of Canada points in Canada. I think from there it does not take too much imagination—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): How many clearing house points do the chartered banks operate in Canada?

Mr. PATON: There are 51 clearing house points. There are 450 clearing points.

Mr. COLEMAN: I think you can see that it would be a rather awkward situation.

Mr. MONTEITH: Could I have some clarification of this 450 and 51. What are those numbers again, and how do they apply?

Mr. PATON: There are 450 points in Canada where there is more than one bank.

Mr. MONTEITH: So there is a clearing between those two banks?

Mr. PATON: There is a clearing between those banks. They constitute the 450. Then there are 51 points where there is an organized clearing house along the lines of the by-laws of the Canadian Bankers' Association which are approved by Treasury Board, in which there is a physical area, be it a basement or a manager's office, where clerks exchange cheques and make settlement for balances between the banks involved. Then you go down to your nine Bank of Canada points, where settlement is then made daily between the banks by drawing on their Bank of Canada accounts or, alternatively, crediting the Bank of Canada accounts.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Has there been any development of computer operations in this field which might have the tendency to reduce the necessity for quite so many individual points?

Mr. PATON: The computer operations are developing just as rapidly as it is economical for us to have them expand. Up to this point they are limited to four or five major cities in Canada, and each bank has its own operation. This will develop as the volume grows and it may well make the clearing system more efficient, but at the moment I think it is reasonable to say that it is in the embyro stage and as yet it has not made a material difference to the actual cost of clearing the exchange of pieces of paper between one bank and another.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would this perhaps be one of the reasons, Mr. Paton, that we sometimes hear the charge that the Canadian banking system is rather old fashioned?

Mr. PATON: No, sir, I would most definitely refute that. I do not believe it on any count.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I now turn to an equally awkward matter. Is my time up, Mr. Chairman?

The VICE-CHAIRMAN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You are saved for the moment, Mr. Paton.

The Vice-CHAIRMAN: It will give him some relief. I now recognize Mr. Wahn.

Mr. WAHN: Clause 73 of the proposed Bank Act, Mr. Paton, refers to the issurance of bank notes, I think, by Canadian chartered banks for use outside Canada. As a matter of interest, do any of the Canadian banks issue bank notes now for use outside Canada?

Mr. PATON: My answer to that would be no, Mr. Wahn.

Mr. WAHN: Perhaps I misunderstood the clause. What does clause 73 refer to, then? Clause 73 reads:

> (1) Where the bank has issued its notes for circulation in a country outside Canada, it is liable to redeem them at par—

and the clause goes on at some length to prescribe what should be done. Is that completely unnecessary now?

Mr. PATON: I must confess it is a section of the Bank Act to which I have paid very little attention.

Mr. WAHN: Of course, I was just curious.

Mr. PATON: I think the purpose of it is exactly as you indicate, that it would give this privilege to the banks, but to my knowledge no bank exercises this privilege. Is that right, Mr. Coleman?

Mr. WAHN: Do you see any necessity for the clause, then, or could it be deleted, or does it matter?

Mr. PATON: My reaction to that is that it does not matter, but I would hesitate to make an official comment of the association because it is really something I have not discussed.

Mr. WAHN: It may be a source of revenue and it would help defray the costs of that clearing house that seems to worry Mr. Cameron.

Mr. PATON: Thank you for the suggestion, Mr. Wahn.

Mr. WAHN: Mr. Rasminsky in his evidence this morning indicated that on several occasions it had been necessary for him to ask the Canadian chartered banks to take certain action which was necessary in the circumstances, and that the Canadian chartered banks had done this voluntarily. He also indicated it was not a type of procedure that he particularly liked but on these particular occasions he felt it was necessary and that the Canadian chartered banks had complied, but that he really had no legal authority under the existing Bank Act, or under the proposed new Bank Act, to require them to comply. Is it a desirable procedure in your view to rely upon voluntary compliance in those circumstances, or would it be better if the Committee were to recommend in the new act the inclusion of a clause which would extend the legal power to the Governor of the Bank of Canada or to the government to require compliance in these circumstances, or when necessary for monetary reasons, I presume, or do you have any views on that subject?

Mr. PATON: Yes, sir, I think our views would be that we are eminently satisfied with the present situation where, in the judgment of the Governor of the Bank of Canada in consultation with the management of the respective banks, they arrive at a mutual agreement. It is true that in many cases this is initiated by the Governor or it is a case where he has had no difficulty in getting the concurrence of the chartered banks if it was a suitable procedure to follow under the conditions existing at the time. They have worked well in the past on various occasions and by keeping it out of legislation, Mr. Whan, it retains a certain flexibility which I think perhaps would be preferable to endeavouring to spell out in the act certain legal authority that the Governor might be given.

Mr. WAHN: You do not see any problem then, Mr. Paton, in the future, when you may have a larger number of chartered banks to contend with than you have at the present time?

Mr. PATON: I do not think so. These occasions are not frequent. They do not occur at regular intervals, they occur at times when there is perhaps a serious change or fluctuation in economic conditions. The usage of them is quite infrequent and I think it is quite satisfactory on the present basis.

Mr. WAHN: Mr. Paton, clause 76 of the proposed new act prohibits, as I read it, a bank owning more than 10 per cent of the shares of other Canadian corporations, with certain exceptions. One of the exceptions is a bank service corporation. A bank service corporation is defined, among other things, as including:

> A corporation engaging in the business of providing a service incidental or ancillary to, or used in the carrying on of, the business of the bank.

Do you think that definition of a bank service corporation is rather broad and indefinite, particularly in view of the lack of definition of the business of a bank? Should it be more specific?

Mr. PATON: I think we like to see it as broad as it can be made, Mr. Wahn. I think you are aware that clause 76 is not one of the more favoured clauses in the Canadian Bankers' Association's considerations, and the wider exemptions there are to this clause the better we would be pleased. I think this particular wording has been arrived at after very, very careful consultation on the purpose of this clause.

Mr. WAHN: What do the bank service corporations actually do, if this is not an embarrassing question?

Mr. PATON: I think it refers basically to the real estate companies. In our case, for example, it is the Toronto-Dominion Realty Company. There is also the Royal Bank's realty company, and the other banks own realty companies.

Mr. WAHN: That is dealt with earlier and it refers specifically in the definition to a corporation owning or leasing real or immovable property. What are these other incidental functions that are referred to? This is what concerns me from the standpoint of vagueness.

Mr. PATON: Is that subclause (C), "ancillary", to which you have particularly referred?

Mr. WAHN: Yes.

Mr. PATON: We had a discussion on that. Mr. Cate, counsel for the association, gave some evidence on the question as to what was covered by this subclause (C). At that time I think he was asked whether or not this would cover companies such as RoyNat, UNAS and Kinross, and he replied that in his opinion the answer was no. I am not too sure if he gave any opinion as to what it would cover.

Mr. WAHN: What do you want it for? Apart from real estate holding companies, which I dealt with earlier; what do you use it for now?

Mr. PATON: I am just not in a position to answer that.

Mr. WAHN: You have companies, for example, which hold securities for the bank but they are usually partnerships, are they not?

Mr. PATON: These are nominee companies which engaged in holding securities for nominees. All the banks have them, but I do not think these are items which are covered under subclause (c).

Mr. WAHN: Right. I would now like to skip over to another clause, which may not be one of your favourites, clause 138. This is the clause, Mr. Paton, which prohibits agreements with other banks with respect to interest rates, and that sort of thing. Do you have any feeling with regard to this clause? This is a new clause and, as I understand it, the Combines Investigation Act in the past has not been considered as applying to banks. This clause is completely new. I gather that in the past agreements among banks with regard to interest rates has not been illegal or considered anti-social, as far as that goes. Do you have any feeling with regard to this clause? Do you consider it is a desirable clause to have in the new Bank Act?

Mr. PATON: We have no objection to it whatsoever, Mr. Wahn.

Mr. WAHN: Ordinarily this type of thing, in my experience, is not dealt with by formal legal agreements. It is more usual to do it by so-called gentlemen's agreements or unwritten understandings, and a person who violates the unwritten code is considered a bit of a chiseller and is subject to certain social opprobrium. If you have no objection to this particular clause, would you be in favour of extending it to unwritten understandings or this type of gentlemen's agreement to which I referred?

Mr. PATON: I think it is quite specific here in its intent. It ties in, of course, hopefully with the removal of the interest ceiling. I think possibly it would be wrong to expand it on a general basis such as you suggest.

Mr. WAHN: In the past the interest rate paid to ordinary savings depositors in Canadian chartered banks has been rather similar from bank to bank. Would you anticipate that if this clause is passed and it becomes part of the law that there would be any difference in the future? Do you think the Canadian public generally would have the advantage, if it is an advantage, of a greater variety of interest rates on savings deposits?

Mr. PATON: There could be a greater variety of instruments of deposit, of various types of certificates, but in general the interest rate on ordinary savings accounts as we know them today would undoubtedly be uniform throughout.

Mr. WAHN: You would not anticipate that this clause would make any difference in that?

Mr. PATON: No, I think the Governor of the Bank of Canada covered that point quite adequately this morning and I would associate myself with the comments he made on that subject.

Mr. WAHN: We have had evidence that, if possible, it would be desirable to have a broader and more active money market and capital market in Canada. We also had evidence last week, and earlier as well, that one way of securing this would be to have broader participation in the banking business by providing in some way for participation, perhaps under controls, by foreign banks or foreign financial institutions. I realize the Canadian Bankers' Association has no official

views on this point, but I think it would be interesting and helpful to the members if we could get the individual points of view of the bankers with regard to this rather basic question. Would it be possible for individual bankers to express their points of view on this question?

Mr. PATON: Certainly if the Committee wishes this it could be done, Mr. Wahn. I think the subject has only been referred to once before during our association's hearings.

The VICE-CHAIRMAN: I think, Mr. Wahn, as it is close to six o'clock, and we are reaching the point of foreign banks and the question of reciprocity between foreign banks and Canadian banks, if you will allow me I will suggest that you start these questions when we resume our sitting at eight o'clock. When Mr. Wahn has finished, I will recognize Mr. Latulippe and then Mr. Johnston.

This meeting is adjourned until eight o'clock this evening.

EVENING SITTING

The VICE-CHAIRMAN: May I call this meeting to order. Mr. Wahn will you resume your questioning.

Mr. WAHN: Mr. Paton, my question is one which I put to you before the recess, namely, whether the bankers have any suggestions as to methods of making our money market broader, better, and more responsive; and the desirability of foreign participation in some form in the money market.

Mr. PATON: Mr. Wahn, the specific question with respect to the participation of foreign agencies in the banking community in Canada is one on which the association has not expressed a unanimous opinion. If I recollect correctly, the subject was briefly referred to at one time, in our previous hearings and I think you raised the question yourself. At that time I indicated that there was not unanimity among all the members of the association with respect to this question. In making that statement I was not intending to indicate that there were sharp clashes of opinion with respect to the admission or otherwise of foreign agencies into Canada; rather it was a question of shades of opinion as to how best this should be considered. I think this is still true and it would not be within my purview at the present time to endeavour to speak on behalf of the association in this connection.

With your permission, perhaps I could give my personal views, speaking as an official of the Toronto-Dominion Bank, and perhaps other general managers who are with us tonight would also wish to comment after I have summarized my thinking.

The VICE-CHAIRMAN: You say now, Mr. Paton, that you are talking only on behalf of your own bank.

Mr. PATON: Yes, I am not endeavouring to give you a consensus of the association.

The VICE-CHAIRMAN: The reason I asked the question is that I was told that Mr. MacIntosh, on behalf of the Bank of Nova Scotia, wanted to add some comments, Is it agreed, after Mr. Paton has finished his statement on behalf of

his own bank, that we ask Mr. MacIntosh on behalf of the Bank of Nova Scotia, and others, if they so desire, to express their views?

Some hon. MEMBERS: Agreed.

The VICE-CHAIRMAN: Mr. MacIntosh, would you like to give your comments on behalf of your own bank at this time.

Mr. R. M. MACINTOSH (*Joint General Manager, Bank of Nova Scotia*): Mr. Chairman, the view of the Bank of Nova Scotia, which I am going to express to you now—and I want to make it clear that this is the view of our bank and not the association—is that the recent discussion which has taken place in this Committee concerning section 75(2)(g) has tended to cloud and obscure discussion of the real issue. In our view, there still is a real problem with regard to the reciprocal treatment of foreign banks in Canada. There is a question of the national interest involved in so far as our treatment of foreign banks here will affect the position of Canadian financial institutions, specifically of the chartered banks abroad. More generally, it will affect the posture of the Canadian government in its dealings in international economic affairs in the world as a whole.

The present government follows a policy which might be termed, an "open economy". The nature of our policy is essentially to have an open view of the world to deal in international affairs in a way which leads to the reduction of tariff barriers and barriers in the movement of goods of capital and of people. Therefore, we feel that an uncompromisingly restrictive approach, a nationalistic approach, to the treatment of foreign banks will ultimately act against the general interest and the general nature of Canadian policy.

We feel also that while the case has been made in this Committee from time to time on the subject of admitting agencies to Canada, that the subject has not been fully explored with regard to the admission of branches of foreign banks. We noted in Mr. Rasminsky's remarks yesterday that he did not take a categorical view with regard to the subject of agencies and branches. He asked a number of questions with regard to how they would have to be treated; as to whether they would come under the Bank Act; as to whether they would be subject to specific rules and regulations regarding cash reserves and so forth. Our view is that while it would be very difficult to make a provision regarding foreign banking in Bill No. C-222 at this stage, it would not be impossible to write separate legislation dealing with the subject of branches and agencies in such a way that Canada should provide reciprocal treatment to other countries. Most specifically, it is our view that the Canadian banks, which themselves operate extensive branch systems abroad, should be prepared, under certain conditions, to see, in Canada, branches of foreign banks operating. We point out that there are 229 branches of Canadian banks in 39 foreign jurisdictions. Only six of those 229 branches are agencies; the rest are all full branches of the parent companies.

What we say then is that agencies do not provide a sufficient degree of reciprocity for some jurisdictions, although we recognize that in the case of some jurisdictions, most specifically at this time—New York and California—the agency treatment would, under present law and failing the passage of federal legislation in the United States, provide a sufficient degree of reciprocity. We say that the problem is not confined to the United States, that the Canadian banks,

in fact, operate in many countries of the world, and that to focus discussion wholly on Canadian-American inter-relationships here, is to miss the fact that Canadian banks are expanding in the developing countries of the world, in the common market, and possibly elsewhere.

With regard to the degree of control that can be exercised over a foreign branch or agency system in Canada, we have this to say: We recognize that it might be necessary to limit branches or agencies to one or two major cities in Canada—perhaps Toronto, Montreal, and Vancouver; that it might be necessary to provide for an annual license—in fact we regard the annual licensing of a foreign branch as a means of effective control in the hands of the Canadian authorities, so that behavior relating to foreign exchange transactions, to monetary policy, to the general acceptance of credit conditions as imposed by the central bank, would be observed, in fact, by foreign jurisdictions. We do not think that there is, in fact, a serious problem with regard to compelling or persuading foreign banking institutions to observe domestic restraints. It is our view that any international bank would not behave in its own best interest and in fact, would behave in a most shortsighted way if it were to attempt to thwart the wishes of the monetary authorities either in matters of domestic monetary policy or in matters of exchange transactions.

We recognize that at the present time there are large U.S. dollar currency transactions placed in the books of the New York banks without agencies or branches here, and that there might be some tendency for those to increase; but this disadvantage, from the point of view of our own narrow interest, has to be weighed against the interest of the country from the point of view of having representation here in our major cities of the offices of foreign banks which would permit them to engage in foreign exchange market operations, and perhaps to assist in the financing of foreign trade. We do not visualize that branches which are brought under this degree of control would necessarily invade the major retail markets of the Canadian banks. We feel that they would nevertheless be a useful addition; and, we say again, that on the other side of the equation, we have these large interests abroad which are truly threatened by the failure to provide for reciprocity in Canada.

We also point out that the United States banks which cannot operate here under federal jurisdiction are quite capable of acquiring provincial trust and loan companies in Canada. In fact, there are two such cases that I know of at the moment. Therefore, it would be beyond the powers of the federal government to control these operations. There is a choice, then, of admitting such institutions directly under federal banking legislation, or indirectly through vehicles which the federal government cannot control.

Finally, we observe that the Canadian banks contribute both foreign exchange earnings and tax revenues, through their foreign operations; that it is the policy of the Canadian government at the present time to encourage export activities of industrial manufacturing concerns in Canada and, therefore, why should it not also be consistent with Canadian policy to encourage the foreign exchange earnings of service industry such as ours.

I perhaps have taken as much time as it is fair to take, Mr. Chairman, but if there is any further point which you would like us to elaborate on, we would be glad to do so.

The VICE-CHAIRMAN: Before representatives of some of the other banks express their opinions on behalf of their own banks and before members begin their questioning I will ask Mr. Coleman, on behalf of the Royal Bank of Canada, to add his comments.

Mr. J. H. COLEMAN (*Vice-President, The Canadian Bankers' Association and Chief General Manager, The Royal Bank of Canada*): Mr. Chairman, I will try not to be repetitive here. I think the first consideration is that the government of Canada seeks to maintain a broad measure of control over the financial institutions in the country, and I do not quarrel with that. What I think we need here is a study in depth of what is best for the country, and I question that this has been done.

I think what we need is a positive rather than a negative attitude. I think we all recognize that the Canadian banking system derives a great deal of its strength from its foreign operations, and that the foreign operations of Canadian banks have contributed greatly to the Canadian financial scene.

I do not know what the answer is, frankly; I wish I did. You might say: allow one or two agencies. Here I can see regional pressures; if you say, "let a foreign bank open and agency in Montreal and Toronto", I can see pressure coming from others who will say "well why not in this province"; and the same thing if you said, "we will let them open one or two banks".

In conclusion, I want to emphasize that we should try to be positive, and I think that unless this Committee feels that they have had sufficient evidence before it, and feels that they are now in a position to make a recommendation to the government, that perhaps some sort of a Committee should be set up with knowledgeable men to study this problem in depth; then they could come back to this Committee with recommendations, and they could go on from there.

The VICE-CHAIRMAN: Thank you, Mr. Coleman. Mr. Sharwood, on behalf of the Bank of Commerce, wishes to give his opinion on this subject.

Mr. G. R. SHARWOOD (*Deputy Chief General Manager, Canadian Imperial Bank of Commerce*): Mr. Chairman, I would broadly endorse what the two previous spokesmen for the banking industry have said. For our part I think that we endorse generally the view expressed in the Porter Commission report on he subject of agencies. I think that there are some things that should be mentioned in this context. Mr. MacIntosh, in his previous remarks, did point out, as an example, the problem of regulating foreign banking institutions along similar lines to the Canadian chartered banks. In this respect, of course, there are certain restrictions which will still be imposed on the Canadian banks if Bill No. C-222 goes forward as proposed. You have heard our opposition to some of them, such as the interest rate ceiling and section 76, and so forth. We point out also that the U.S. banks, as one example only—and this is true of other banking institutions in the world—do have powers which have not so far been given to the Canadian banks. In this respect, I am talking about trust and fiduciary powers.

From the competitive viewpoint—and I know this is something that interests you, Mr. Wahn—we feel that if the Canadian banks were set free to

compete, which would include giving the Canadian banks trust and fiduciary powers, that we would have no hesitation in U.S. or foreign banks generally having branches in this country; but such branches, if they are full branches, would normally carry the the same kinds of powers as the parent, and this is certainly something that we feel the Committee should consider.

The VICE-CHAIRMAN: Thank you, Mr. Sharwood, for your suggestions. Now, Mr. Hackett, on behalf of the Bank of Montreal, wishes to comment on this.

Mr. W. T. G. HACKETT (*General Manager (Investments), Bank of Montreal and Chairman of Canadian Bankers' Association Bank Act Revision Committee*): Mr. Chairman, my statement, which is very brief, deals broadly with the matter of principle. Our thinking, thus far, has led us to the conclusion that there would be merit in sensibly limited reciprocal arrangements with respect to the operation of agencies of foreign banks in this country.

I should go on to clarify the term "reciprocal", we would regard it as applying specifically to the jurisdiction which would have power to give the entrée to the agency of a Canadian bank in the other country concerned. For example, I am quite sure that we would not favour the granting of even a limited agency licence to a bank from a state in the United States, which did not offer similar or reciprocal facilities to a Canadian bank.

I think that is the only comment I have to make on this, Mr. Chairman.

The VICE-CHAIRMAN: Thank you very much, Mr. Hackett. Mr. Paton, you have expressed an intention to say a few words on behalf of your own bank?

Mr. PATON: Mr. Chairman, I am very pleased to do so. I think, in general summation of what has been said before, that there has been an indication of a feeling with which we concur, viz that we cannot expect to do an increasingly important international business ourselves without in some measure giving *quid pro quo*.

Our feeling is that it would be premature of the Canadian government, in considering the current legislation, to introduce into the bill positive legislation with respect to permitting access to a non-resident bank—I think we have to consider mainly the influx of American bank agencies or branches—without having any concrete knowledge of what is being contemplated by the government of the United States with respect to their legislation, which we read of as being currently under consideration. I think it is very difficult when you are dealing with two economies of such substantial difference, both in size and in influence; remembering too, that in the United States there is a dual banking system wherein the federal authorities simply do not have the power to dictate as to where non-resident banks can locate in he United States, as contrasted with our system in Canada where jurisdiction is solely under the federal authority. Indeed, as Mr. Coleman pointed out, you might well find that the provincial jurisdictions were vying with each other with regard to permitting access of non-resident agencies.

In short, we recognize that it is an important question. We feel that it needs considerable more study than it has been given, and that it would be premature to move at this time. We see no problem if, subsequently, it is found desirable to implement arrangements; this could be done separately, as was done, for exam-

ple, some 10 or 12 years ago when the NHA provisions were brought in without any actual amendment to the Bank Act.

That, in general, would be our approach to this question, Mr. Chairman. Thank you.

Mr. WAHN: May I ask one final question?

(*Translation*)

Mr. CLERMONT: Could we not have the opinion of a bank such as the Provincial Bank and the National Canadian Bank?

Mr. LÉO LAVOIE (*Vice-President, the Canadian Bankers' Association and Vice-President and General Manager, La Banque Provinciale du Canada*): Certainly, Mr. Clermont. The bank I represent is certainly less concerned than the other banks, whose represenatives have expressed their opinions. As far as we are concerned, we would be in favour of banking operations in Canada remaining under the control of the country's citizens, and to reach this goal the new Bill contains Clauses 52 to 57 which mention that only 25 percent of the capital of chartered banks should be controlled by foreigners. In the Province of Quebec, we have French companies established in Montreal with provincial charters and carrying out banking operations, taking deposits and making commercial loans. We already had to face this competition. We would prefer to see a new Bill of the Federal Government which would bring these establishments under the control of the Federal Government with regulations which could be well determined in advance. There is also the question of reciprocity. I am thinking that when you establish reciprocity you should take into account the size of foreign banks which may come and settle in Canada and compete with our Canadian banks.

The VICE-CHAIRMAN: And now it has been pointed out to me that Mr. Leclerc on behalf of the National Canadian Bank would also like to express the views of his bank on this important problem. Would you please come up, Mr. Leclerc and speak into the microphone?

Mr. RENÉ LECLERC (*General Manager, La Banque Canadienne Nationale*): I do not want to repeat what Mr. Lavoie has said about competition we get in Quebec and at the risk of identifying myself with the Royal Bank, I think we should first make a thorough study of the question and with the statistics now available. We would see no objection to permitting the establishment of agencies, not of branches, of foreign banks. And when I say foreign banks, I am not just talking about American banks. As it was said here before, but on condition that the number of them be very limited, in the main cities of the country and also, that they be subject to the same obligations as are the chartered banks in Canada. And if a thorough study proved that this is not possible, well, we could then change our opinion, but for the time being, from what we know, we would not have too serious objections to this being done but in very limited number and subject to the same obligations as those imposed on the chartered banks of Canada.

The VICE-CHAIRMAN: I thank you, sir, and for the benefit of the transcription of the Proceedings, would you please give us your first name and your position in the bank?

Mr. LECLERC: My name is René and I am General Manager of the National Canadian Bank.

The VICE-CHAIRMAN: Thank you very much.

(*English*)

Mr. Wahn, will you proceed with your question now.

Mr. WAHN: Mr. Chairman, bearing in mind the fact that the Bank Act will not be revised for another 10 years, the question occurred to me whether the bankers here would think it sensible to simply add a provision which would authorize the Governor in Council, after proper study and on a reciprocal basis, to extend reciprocal privileges in Canada, or is there any objection to such a provision?

Mr. PATON: In answer to that, Mr. Wahn, I will initiate the discussion and perhaps Mr. Coleman may wish to supplement what I say.

I think it would be premature to introduce this provision into the Bank Act basically because of the difficulty in defining just what reciprocity would mean. I think the sphere of influence of the various countries that would be interested in bringing agencies into Canada or making application to provide agencies in Canada would vary according to the individual country. I feel that as there is nothing in Bill No. C-222 which precludes foreign agency applications being made at the present time, it would be to some extent superfluous at this stage to commit ourselves—and when I say "ourselves" I am speaking of the Canadian people—to a prescribed line of action.

Mr. J. H. COLEMAN (*Vice-President, Canadian Bankers' Association*): Mr. Wahn, I should make it clear that my feeling is that we should not shelve this problem; I think we should get at it right away. I am a layman and I bow to you on this, but I just wonder if it would be possible to put a clause in that would do what I think you intend to suggest. It seems to me that it might be the responsibility of this Committee to examine this very carefully, whatever the conclusions are. I would think that it would have to come to this Committee and then go to the government. I am not suggesting that the Bank Act should be held up; I do not think that is necessary and I would hope that it would not be. However, it seems to me that there must be some way, after the problem is studied and you gentlemen make your decision and come up with your recommendation, that enabling legislation could be put in to make it law.

The VICE-CHAIRMAN: Mr. Grégoire, did you have a supplementary question?

(*Translation*)

Mr. GRÉGOIRE: Mr. Chairman, do we have to ask questions in connection with this subject now?

The VICE-CHAIRMAN: Not necessarily.

Mr. GRÉGOIRE: Mr. Paton I think that recently the average yield of Government short term bonds was lower than 5 per cent, is this not right?

(*English*)

Mr. PATON: The average yield of short-term government bonds went below 5 per cent?

Mr. GRÉGOIRE: Five per cent.

Mr. PATON: I thought you said 7 per cent.

Mr. GRÉGOIRE: No, 5 per cent.

Mr. PATON: Five per cent; that is correct.

(*Translation*)

Mr. GRÉGOIRE: If under the new Act, you took this average yield which is inferior to 5 per cent and added the 1¼ per cent granted to you under the Act, you could then charge approximately 6¾ per cent. Would this prevent you, under those circumstances, granting loans on mortgages when the rate of interest was raised to 7¼ per cent by C.M.H.C. sometime before Christmas?

(*English*)

Mr. PATON: The answer is no, it would not prevent us under the new act in participating in NHA mortgage lending. These are exempt from that section.

(*Translation*)

Mr. GRÉGOIRE: But under the former act you did not have the right to do this? Under the old legislation, when you loaned at 6 per cent, you were not allowed to do so.

(*English*)

Mr. PATON: That is correct.

(*Translation*)

Mr. GRÉGOIRE: I would like to ask questions and I will not take long, seven or eight minutes. I just want an answer to a problem. I noticed in the Statistics of the Bank of Canada that each time cash reserves of the whole chartered bank system are on the increase, your deposits and your loans also increase, and always according to a ratio of 12½ to one, which means that when the Bank of Canada allows you, let us say, a dollar in bank notes, this dollar bank note will contribute to the chartered banks' reserves. As soon as this happens, the chartered banks multiply this by 12½ by lending it, which constitute increased deposits which will increase by $12.50 for $1.00. Is this not the case under our present banking system?

The VICE-CHAIRMAN: Mr. Grégoire, I have no objection to this question on reading the Proceedings, but I have the impression that you will find that answers have been given to similar questions at least ten times.

Mr. GRÉGOIRE: I have read them and note that never has an answer been given to that question.

The VICE-CHAIRMAN: Maybe you never had a satisfactory answer, but answers have been given.

Mr. GRÉGOIRE: Possibly my question could be answered by a simple affirmative. Because this question has never been put in this manner. Is it not so, that when the Bank of Canada increases the number of its bank notes and every time one dollar of the Bank of Canada is added to your cash reserves, is it not so, that you grant loans in sufficient amounts so that the deposits in all chartered banks are increased by 12½ per cent, is this so or not?

(*English*)

Mr. PATON: Mr. Grégoire, I follow the question and I think I am inclined to agree with Mr. Laflamme, that a somewhat similar question has been asked at least once before, and several witnesses, including myself, rather haltingly, have endeavoured to give you an answer which I gather perhaps has not been satisfactory to you.

Mr. GRÉGOIRE: But, Mr. Paton this, question always has been put to Mr. MacIntosh, my good friend. I remember once asking him questions for 20 minutes and at the end of that period—Mr. Laflamme was the Chairman—I asked you the same question and then I received the answer for the first time. However, for 20 minutes I did not get an answer. We have a good witness here in the person of the president.

Mr. PATON: Mr. Grégoire, that is why I am sitting here; I can let Mr. MacIntosh do the work, and I get the glory.

Mr. GRÉGOIRE: Mr. Paton, I would like to have your answer. You are the president of the Canadian Bankers' Association. Is it a fact—yes or no?

Mr. PATON: Do you wish the short answer?

Mr. GRÉGOIRE: Yes.

Mr. PATON: No.

Mr. GRÉGOIRE: Then how can you explain the statistics published by the Bank of Canada, that every time the cash reserves increase by $1 your Canadian dollar deposits are increased by $12½. Is it a fact—yes or no. These figures and statistics are not mine; they are yours and the Bank of Canada's.

Mr. PATON: Mr. Grégoire, I think perhaps that I should say all through our testimony we have endeavoured to be as frank and as knowledgeable as we are able to be. Where we had felt that we—and I am using this editorial "we", meaning myself—were getting somewhat out of our depth, we have not hesitated to call on our expert advisers, with the concurrence of the Chairman. I should like to defer your query to Mr. MacIntosh, your friend and my friend.

Mr. GRÉGOIRE: Mr. Paton, perhaps you have missed the point. Any time we have questions about the banking system everybody is afraid to give direct answers and I am surprised at that. I quote your statistics not mine—The Bank of Canada's statistics—and I ask, is it a fact that every time the cash reserves in the chartered banks increased by $1 at the same time the Canadian dollar deposits increased by 12½ times this dollar. Is that a fact? These are the statistics.

Mr. MACINTOSH: Mr. Grégoire, you cannot explain cause and effect with statistics: If I tell you what is a fact: that the rate of increase of liquor consumption in Canada is at about the same rate of growth as the number of clergymen in Canada do you therefore conclude that the rate of liquor consumption is going up because of the number of clergymen. This is known as a spurious correlation, and this is what you are introducing here.

Mr. GRÉGOIRE: I would like to point out though that everywhere these statistics are published there is a direct relation pointed out between one and the other. Here the relation is the average cash reserve ratio which is published immediately in the following column, bringing a close relationship between the

two of them. I have made the point that there is a close relationship because there is a close relationship in the statistics of the book.

Mr. MacIntosh: Mr. Grégoire, I gave you the long answer.

The Vice-Chairman: I do not want, as Chairman, to leave the impression that any member is not allowed to make a statement but any member here who asks witnesses questions must accept the answers given.

Mr. Grégoire: I agree with that.

The Vice-Chairman: Yes, but since Mr. Paton has asked Mr. MacIntosh to answer, I think you should allow Mr. MacIntosh, in very short terms, to give his own answer. I really think that Mr. MacIntosh should perhaps read some of the evidence he already has given before us.

Mr. MacIntosh: I gave the long answer before and when I was not here I think you received a short answer from the President of the Royal Bank of Canada, which you said, according to the evidence, satisfied you; therefore, since you have had a short answer which satisfied you I have nothing to add to what Mr. McLaughlin said.

Mr. Grégoire: I would like to follow up this evidence. Remember, we have only 20 minutes. Mr. McLaughlin made the point, I think, that every time they have one dollar they can loan 12½ times that. The increase in your loans and deposits is 12½ times the amount of your cash reserves. If you increase it by 12½ times when the cash reserves are increased, is it correct that when they are reduced you have to reduce at the same time your deposits by 12½ times, every time your cash reserves are reduced by one dollar?

Mr. MacIntosh: As Mr. Rasminsky said last night, the relationship is not so rigid as that. We are on a monthly averaging basis.

Mr. Grégoire: Yes, that is correct. If you can increase or decrease by 12½ times your cash reserves, is not new credit created every time you increase your cash reserves, because of the loans that you are making at that time. Is that not the main operation of the chartered banks?

Mr. MacIntosh: Mr. Grégoire, we cannot increase our cash reserves. The Bank of Canada can increase them, but we cannot.

Mr. Grégoire: I mean every time your cash reserves are increased because the Bank of Canada puts more into circulation?

Mr. MacIntosh: If the Bank of Canada puts more cash reserves into circulation, yes, we can then expand our credit.

Mr. Grégoire: That is what can be called a creation of new credit?

Mr. MacIntosh: I suppose you can call the expansion of cash reserves by the Bank of Canada a creation in their case; I do not think you can use that word with us.

Mr. Grégoire: Would it be a creation of credit by the chartered banks?

Mr. MacIntosh: I think I have been here before! I do not have much to add, Mr. Chairman, to what I have been saying here for many hours. That is about all I can say.

Mr. GRÉGOIRE: This is the first time I have asked you a question which you do not want to answer. Is it because the question is too close to the truth?

Mr. MACINTOSH: No, it is because I tried before and failed.

Mr. GRÉGOIRE: Well then, I pass. I think it is evident they do not want to answer the straight questions we are asking.

The VICE-CHAIRMAN: For the benefit of the record, as you have stated, Mr. MacIntosh, when members or anyone else reads this present evidence I think they should refer to the record of the meeting of December 6 for the testimony of Mr. McLaughlin as Chairman and President of the Royal Bank of Canada. I will now recognize Mr. Latulippe.

(Translation)

Mr. LATULIPPE: Mr. Chairman, I have a few rather general questions to ask with regard to public debts and private debts and the consequences of such debts. I would like to find a way to get out of them, because there are debts in all ranks of society and there should be a way of getting out of these debts, and it is on this that I want to center my arguments. First, could you tell us, in substance, whether it would be possible and logical for the financial credit of a country or of a province to correspond to its true credit and its capacity for production?

(English)

Mr. PATON: I regret, Mr. Latulippe, that I am not in a position to answer. I do not quite understand the question you have asked. Would you mind repeating it? I might suggest that perhaps Mr. MacIntosh would take careful note of this question as I feel I may need him.

(Translation)

Mr. LATULIPPE: I will repeat it because it was not clear. Could you tell us, Mr. MacIntosh, whether it would be possible or logical for the financial credit of a country or of a province, to correspond to its true credit and to its capacity for production, to produce and to deliver goods?

(English)

The VICE CHAIRMAN: Will you answer the question?

Mr. MACINTOSH: I will try. Yes, the amount of credit and production in a country are always related.

(Translation)

Mr. LATULIPPE: So when banks lend money, do they bear in mind the capacity for production of a person, of an individual or of a province, or do they base their loans on the confidence they have in the personality of the person with whom they are doing business?

(English)

Mr. MACINTOSH: I am not sure that question is really meant for me. Certainly the personality and the quality of the management is taken into account when making loans, yes.

Mr. PATON: That is a direct—

(*Translation*)

Mr. LATULIPPE: You take into account personality, but you do not take into account the volume of products which may develop in a country or in a province. And this is what I would like to bring to light, because it seems to me that in Canada there are many things physically possible, but because credit is distributed or loans made on the basis of the confidence you have in people, the banks are not taking into account the true credit of the country for the true development of a country or of a province or of a municipality, for that matter.

(*English*)

Mr. MACINTOSH: Mr. Latulippe, our capacity to produce is only limited by the size of the population and the number of hours in the day during which they want to work and the resources which they have available to them and which are given to them by nature on which to work. Those are the only things that limit capacity, and the volume of credit which is provided by the central bank is so adjusted that it attempts to encourage a steady growth of production at full capacity, but without inflation or recession. Those are the objects of monetary policy.

(*Translation*)

Mr. LATULIPPE: The Central Bank exists but it does not take into account the true development capacity of a country, because when the Bank of Canada gets money out, it is because the chartered banks are asking for it. The central Bank does not put money in circulation if it is not asked to do so by the chartered banks? Is this not right?

(*English*)

Mr. MACINTOSH: No, that is not the case. The central bank makes up its own mind about the amount of credit it deems appropriate. Certainly they do not give us all we would ask for because we would certainly ask for unlimited amounts. At least, this is what we would do for our bank; I do not care about the other fellows.

(*Translation*)

Mr. LATULIPPE: In that case, would it be possible by appropriate bookkeeping to put this credit at the disposal of the people without changing it into debts for the individual or for governments. Every time there are credits they turn into debts either for the government or for the people. Could a formula be found so that social capital might be financed at lower rates than the rates that are presently charged everybody?

(*English*)

Mr. MACINTOSH: Whenever a credit is created a debt is also created. They are on opposite sides of the same coin, to coin a phrase.

(*Translation*)

Mr. LATULIPPE: Would it be possible for the banks to take steps to grant preferential rates to social capital, because in that field many things are not income bearing; for instance a sidewalk, a bridge, a road, do not yield anything towards production; these are real things, things that are put at the disposal of

the citizens but which do not bring in any revenue. It seems to me that the banks, in order to finance this social capital, should give preferential rates to help the municipalities, the provinces and even federal enterprises. Would it be possible to set up reasonable rates? Would it be possible to study this question?

(*English*)

Mr. MacIntosh: I think the short answer to that is that all social capital has to be paid for out of savings like any other capital and, in fact, if you study the provisions of the Canada and Quebec pension plans you will find that there are preferential rates for these purposes for long term capital.

(*Translation*)

Mr. Latulippe: Could you tell us what makes up the public debt and also tell us why it is always increasing.

(*English*)

Mr. MacIntosh: The public debt of the federal government has not really been increasing very much in the last 20 years. I would think it is lower now than it was 20 years ago. Practically all of the increase in public debt is provincial and municipal, and obviously it has increased because of the terrific rate of spending on roads, schools, hospitals and whatever you care to name in the way of social capital; public utilities, hydro facilities, universities, whatever you like.

(*Translation*)

Mr. Latulippe: I think, judging from the statistics I have seen in the Canada Year Book, that the federal public debt has increased. In view of the increase in the population it is claimed that the debt has been reduced; but because the population has increased. So, the debt has also increased, but in proportion, one might think that the debt has gone down, but according to these statistics the debt has not been decreasing. Why should the interests on the same debt be always increasing and why should taxes always be on the increase and why should the taxpayers' pockets be forever empty?

(*English*)

Mr. MacIntosh: I think, Mr. Latulippe, you are asking the wrong person why the national debt is increasing and why the budget and taxes are increasing. I think your witness on Thursday might be able to provide you with a more authoritative answer.

(*Translation*)

Mr. Latulippe: Do you consider, Mr. McIntosh, that the Government could reimburse all its debts, all it has promised and all it will promise under the present system?

The Vice-Chairman (*Mr. Laflamme*): Mr. Latulippe, with regard to public loans and the national debt, the Minister of Finance will be here Thursday. I think this is really more the responsibility of the federal government and of the Minister of Finance. Because, presently, we have, as witnesses, representatives of the various Canadian banks and I am wondering if these questions dealing with the part played by the banks in the monetary system should not be directed to the Minister of Finance on Thursday.

Mr. LATULIPPE: I know the Minister of Finance is going to come but there are factors which are contributing towards increasing debt and I think it would be a good thing to get the comments of these gentlemen who are aware of the monetary system in the country and know what debt is; I think that these people who control the finances and economies of the country could, if they wanted to, solve many problems.

The VICE-CHAIRMAN: Well, if you only have one or two questions in that field, I have no objection to letting you ask them but if you want to continue, I think I shall have to ask you to change the subject or to wait until Thursday to ask these questions, because we still have questions, interesting and significant questions to discuss.

Mr. LATULIPPE: I would like to ask Mr. MacIntosh whether the public debt is not composed in part of money which does not exist, although it is still being distributed by the banks?

(*English*)

Mr. MACINTOSH: I do not think so. No, I am not aware of that.

(*Translation*)

Mr. LATULIPPE: There is certainly something wrong here, because if the government wanted to pay its debts to-morrow morning, there would be a shortage of money throughout the country and this would empty the banks and only the federal debt would be paid. The other debts would still be outstanding. There would be a shortage of money to meet the obligations we have in respect to the banks. The money supply is but 2 billions out of 28 billions; there is only $3 billions of legal money and we do not know exactly what the difference consists of and when we query this difference the answers are rather vague. The debt of all Canadians amounts to $88 billions and there is only $3 billions in circulation and I am wondering if there is some false money around or if only bonds and securities count. Bonds and securities are not money. This is not clear in my mind. I find it difficult to describe and explain and I would like to enquire from you people and find out about such things.

The VICE-CHAIRMAN: What can be well understood can be well stated. Do you have any more questions, Mr. Latulippe?

Mr. LATULIPPE: Yes, I am wondering if there is some false money around, or is it only bonds and securities that count? Bonds and securities are not money. This is not clear in my mind. I find it difficult to understand and explain. I would like to enquire from you people and find out about such things.

The VICE-CHAIRMAN: What is well understood can be well stated. Do you have any more questions, Mr. Latulippe?

Mr. LATULIPPE: Yes. Why is it that the banks have in hand the instrument to get hold of all the wealth? Are banks really and directly taking over our wealth since, when one considers all the mortgages and the total debt of the country represented by private debts and public debts, these greatly exceed all the wealth. This is what I wanted to explain to you previously and about which I wanted an answer. Private debts and public debts are far greater than the total amount of the wealth.

(*English*)

Mr. MACINTOSH: All I can say is that the deposits owned by our depositors in the banking system are only a fraction of the total assets in the economy. They are not by any means all of it; they are just a small fraction.

(*Translation*)

Mr. LATULIPPE: The total debts in the country make up the credit of financial institutions; they are therefore indirectly owners of all the wealth in Canada. Do these financial institutions collect interest on all these assets?

(*English*)

Mr. MACINTOSH: Even all the financial institutions together do not represent all the wealth of the country. Much of the wealth is owned by private individuals, free and clear.

(*Translation*)

Mr. LATULIPPE: All the wealth of the country is mortgaged, and who owns these mortgages?

The VICE-CHAIRMAN: I would like to ask you how this ties in with the Canadian banking system? And I am wondering whether I should not ask you to submit your questions to another committee or to other witnesses. Because, I just cannot see how the questions you are asking concern chartered banks. I would therefore ask you to please ask questions on other subjects, and if you have any more similar to the ones you asked previously; go ahead.

Mr. LATULIPPE: Mr. Chairman, I like asking questions. I was talking about general matters and I notice that we are not talking any more about general questions. Every time I am trying to ask questions, we are never dealing with general matters. Mr. Chairman, I would therefore ask you to be indulgent, because questions such as these—no one has dared to ask.

The VICE-CHAIRMAN: Well, I have no intention—

Mr. LATULIPPE: I dare to do so, Mr. Chairman and I will do it.

The VICE-CHAIRMAN: Order, order.

Mr. LATULIPPE: I also am representing the people, not only the world of finance. I have my right to speak.

Mr. CLERMONT: Mr. Chairman, the way that Mr. Latulippe has spoken, according to him, the other members here are representing finance, I object. I would like to say that I am representing the people just as much as Mr. Latulippe is. If some questions have not been asked, I will ask them.

The VICE-CHAIRMAN: Order. Do you have any more questions to ask?

Mr. LATULIPPE: Yes, sir. Could you tell us whether financial credit should reflect real credit and correspond with economic facts and the consumers' requirements?

(*English*)

Mr. MACINTOSH: Financial credit always represents real goods unless people make bad loans.

(*Translation*)

Mr. LATULIPPE: Therefore, is it wrong to say that all new money comes from a bank in the form of a loan and that all money in circulation was initially loaned by a bank and that in the present system all money is a debt and bears interest?

(*English*)

Mr. MACINTOSH: No, the banks do not have all the money supply. They have only a part of it. Much of it is held by the near-banks.

(*Translation*)

Mr. LATULIPPE: If the money in circulation, all the money in circulation, has not been issued by others than the banks, because no one else has the right to issue money, than the Bank of Canada and the chartered banks, then the money in existence is necessarily the property of the banks, belongs to the banks, and should return to the banks, and with interest. Is this the case?

(*English*)

Mr. MACINTOSH: Interest must always be paid on loans, we hope; yes.

(*Translation*)

Mr. LATULIPPE: Therefore, there is interest on all money in existence. There is not one red penny that does not bear interest. Therefore, how do you want the government or the people, one day, to pay back their debts when the initial amount is loaned and the interest is not loaned but the interest is claimed. How can you explain that this system can carry on and that the Canadian economy can carry on? This is something I do not understand.

(*English*)

Mr. MACINTOSH: I guess the short answer is that it works. Interest has to be paid out of earnings, as with any other form of payment. This is only one form of expenditure of families and corporations, and it has to be paid out of income.

(*Translation*)

Mr. LATULIPPE: Mr. MacIntosh, I think it would be logical and even praiseworthy to pay interest on things that exist but to pay interest on created things, on straw money, on money that does not exist; it seems to me illogical to pay interest on such things.

(*English*)

Mr. MACINTOSH: Interest is paid for the use of money, and the money is spent on things, so that there is something real there when money is borrowed.

(*Translation*)

Mr. LATULIPPE: But when only straw money is borrowed accountancy money, ledger entries, billions, 99 percent of the money in circulation is not true money. One cannot feel it. It is only a book transaction. And you are withdrawing money while you are creating it with such transactions.

The VICE-CHAIRMAN: I do not want to interrupt you, but we have allotted a twenty-minute period to each member of the Committee, and I must tell you

that your period of twenty minutes has expired. Therefore, if you have one or two other questions, I will grant you the further privilege. But if you have many more, I would ask you to give up the floor.

Mr. LATULIPPE: I would like to ask a few more questions, Mr. Chairman, I have not had the opportunity of asking all my questions, I did not ask any this morning. Other people have spoken four or five times. I have not spoken at all.

The VICE-CHAIRMAN: You should never have given up your turn to Mr. Grégoire.

Mr. LATULIPPE: Mr. Grégoire did not delay me. I could have the opportunity—

The VICE-CHAIRMAN: Go to it. A few more questions.

Mr. LATULIPPE: If government bonds entered in the bankers' books become money could they become money in the government books? Could the government take control and take part of this money to finance goods that are not income-bearing? Could this be a logical transaction?

(*English*)

Mr. MACINTOSH: No, sir; the government could not borrow from itself without inflating the currency. Although governments have been known to do such a thing deliberately I do not think we could consider it an advisable policy. You can take out the printing machines and print money. This is borrowing from yourself, and governments can do that, but I do not think that I would recommend it to Mr. Rasminsky.

(*Translation*)

Mr. LATULIPPE: In that case, it would not be logical for the government to create new credit and finance its social capital through this new credit? Would it not be logical for the government to do that?

(*English*)

Mr. MACINTOSH: This is a private enterprise economy, by and large, Mr. Latulippe, and to some extent the government does borrow to create social capital; but, on the whole, most of the resources are directed through the private sector of the economy.

(*Translation*)

Mr. LATULIPPE: One more question. Could you tell us if, at the present time, capital works are financed by private capital?

(*English*)

Mr. MACINTOSH: A large part of them is financed by private capital, but there is also a large part financed by the public sector, particularly provincial and municipal.

(*Translation*)

Mr. LATULIPPE: Do you agree that this is probably what deprives Canadian industry, and that is what obliges it to go looking for capital from foreigners and

this is what makes our economy dependent on foreign interests. Do you agree with this?

(*English*)

Mr. MacIntosh: No, sir, I do not.

(*Translation*)

Mr. Latulippe: I have much more to say but feel I should not take up someone else's time.

The Vice-Chairman: Thank you.

(*English*)

Mr. Cameron (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, if I may, I would like to spend a minute or two again in exploring this question of foreign agencies and foreign banks.

The Vice-Chairman: Yes, please.

Mr. Johnston: On a point of order, Mr. Chairman, I was after Mr. Latulippe in the list of questioners.

The Vice-Chairman: Yes; I am very sorry. I have made a mistake.

Mr. Johnston: Thank you. I do not know whether I can live up to your advance billing about the very interesting questions still to be asked, but recalling the evidence that you gave to the committee, Mr. Paton, when you were here previously, it seems to me that you argued that the general bank interest rate should be allowed to rise, partly in order that the banks then could charge a higher rate of interest on the deposits that they held and would thus be able to attract more deposits and so compete on a more equal basis with the near-banks.

Mr. Paton: There is just the one word I would change. You refer to "charging" interest on deposits. It should be "paying" interest on deposits.

Mr. Johnston: Paying, yes; I was wondering whether you were aware of an article that appeared in the August 1966 issue of the Canadian Journal of Economics and Political Science entitled "The Competition for Personal Savings Deposits in Canada" written by Vladimir Salyzyn of the University of Alberta?

Mr. Paton: No I am not familiar with this particular article, Mr. Johnston.

Mr. Johnston: Mr. Salyzyn has written this article partly because of statements that appeared in the report of the Royal Commission on Banking and Finance, which, in speaking of the influence of the interest rate on deposits, commented that the fact that the banks have not paid as high rates as their competitors on personal savings deposits has, without question, contributed to their relatively slow rate of growth.

What Mr. Salyzyn has done in this article is to refuse to accept without question part of that statement from the Royal Commission report. It is a rather lengthy and extremely technical article, and one that I would recommend, but I would like to skip over to the conclusions if I may, because they are rather queer. If I may, Mr. Chairman, I will quote the principal conclusion and my purpose is to ask for a comment on it by Mr. Paton.

> The principal conclusion to be drawn from this analysis is that a substantial portion of the ability of credit unions and trust companies to

compete successfully with chartered banks for personal savings deposits is attributable to product competition (through shifts in demand) rather than price competition. This suggests not only that the rates of interest paid on personal savings deposits may not be "very important" in contributing to the relative decline of chartered banks, but also that there may even be some question whether they have contributed to the decline at all. Although the results are obviously highly tentative they do suggest that the role of interest rates in deposit competition may have been greatly exaggerated in the past.

Mr. PATON: I would comment on that conclusion, Mr. Johnston, in this way, that, I have not had an opportunity to read the preliminary reasoning leading up to the conclusions, but I would very much like to be given the opportunity, through the complete removal of the interest rate ceiling, to prove that these conclusions are incorrect.

In short, we have been living under a situation of an artificially-imposed ceiling which has certainly been, in our minds, the main contributing factor to the relative decline.

We have found over the past year or so that the various banks have initiated new forms of savings certificates at a higher rate than we pay on ordinary savings accounts which are chequable, as you are aware, and we have found that these have had quite a successful growth, which doees indicate that if we were able to proceed generally, with freedom in coming up with different items which would be attractive to the public, we could compete much more aggressively for their deposits.

From the limited experience we have had with these certificates I would be very much inclined to take issue with our learned friend on this article. I feel confident that the major hindrance to us in getting what we consider to be our fair share of the savings of the Canadian public is directly attributable to our inability to compete on an interest basis.

Mr. JOHNSTON: I have one other question. Has the Bankers' Association commissioned any equivalent studies on this question, or would you consider commissioning such a study?

Mr. PATON: There are no existing studies in the technical depth of the one to which you are presently referring.

Our clear conviction has been previously stated, and it remains equally strong at the present time, that we feel that immediate and complete removal of any interest rate ceiling is undoubtedly in the best interests of the Canadian public and that this would result directly in our being able to offer more attractive rates of interest.

Mr. JOHNSTON: Considering the importance that the whole question has been given in the Committee hearings and the stature of the journal involved I would recommend the article to you, Mr. Paton.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have just two matters that I want to bring up with Mr. Paton, Mr. Chairman. They deal with this question of compensating balances and so on; and I am not attempting to go back and cite refuting evidence, or anything of that sort.

The question I want to put to you is this, Mr. Paton. Do you not really think that if the banks were to make some attempt to state their charges in terms of an interest rate, it would, in the first place, be extremely good for the banks' public relations, because there is a lot of muttering about these types of additional charges that are not expressed in interest terms? I wonder if it would not be possible when this act goes through and when, at least in the beginning, the ceiling will rise to 7¼ per cent, for the banks to make some attempt to do this, and to cut down on the demand for compensating balances and the various service charges and so on which I think, from the former evidence you gave us, are related to interest rates?

It is all part of the cost of money. Could you make some comment on that and whether you think that the banks would be prepared to do that, or whether it would be worth their while to do that?

Mr. PATON: Yes, Mr. Cameron, I would say quite unequivocally that the banks would be quite prepared to conform to any suggestion, any legislation that might be written or, requiring the expression, on an interest rate per annum basis, of the cost to borrowers of any loans that they may receive from the banks.

I should, perhaps, express a word of caution, that this might well serve the purpose required in connection with the public relations of the chartered banks in dealing with their customers if this could be confined to loans to other than corporations who are sophisticated borrowers operating their lines of credit on a fluctuating basis throughout the year, and are well aware of the cost to them of the funds they borrow.

My reason for that is not that we have any hesitation in including them, but that it would conceivably mean a substantial increase in the routine operation of their accounts.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Of course, you are speaking of fairly large corporations. You are not speaking of small or medium-sized businesses?

Mr. PATON: I am not speaking of small or medium-sized businesses; that is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But for small or medium-sized businesses you think it would be quite feasible to express the costs in terms of an interest rate?

Mr. PATON: Yes; it would be quite feasible to do so.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): My next question deals with another matter—

Mr. MONTEITH: If I may interject, Mr. Cameron, I would like to be sure that I understand your question and the answer. The answer applied if and when the interest rate goes to 7¼ per cent maximum. Is this what you meant?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is the reason I asked the question.

Mr. PATON: If I may interject with something that is relevant but not directly answering your question in connection with the removal of the ceiling, Mr. Monteith, under the proposed formula, as included in Bill No. C-222, the

interest rate ceiling may well come back down, on the basis of the formula. In other words, you cannot be sure that once the interest ceiling has reached 7¼ per cent it will stay there.

I might also, perhaps, interject at this time that if the formula is ultimately decided on perhaps this amendment could well be included and that the maximum rate attainable under the formula would remain as the ceiling. In other words, the ceiling should not come down very six months if the bond market interest rates come down.

There is one very vital situation that prompts me to say this, which is that a rate of 7¼ per cent, for example, would permit the banks to take on loans of a certain risk character. These loans undoubtedly would spill over into an ensuing interest period. If interest rates generally in the bond market had come down at that time it is conceivable that the ceiling would drop from, say, 7¼ per cent to 6¾ per cent, and that that would make that loan an unattractive piece of lending in so far as the banks are concerned.

Therefore, faced with this uncertainty of a changing interest ceiling every six months the banks, I am sure, would feel quite inhibited in their opportunity to enlarge their borrowing sphere and to bring under their umbrella borrowers who presently are going out and getting their money at substantially higher rates.

Mr. MONTEITH: I see that point, but again, just to clarify Mr. Cameron's question, I thought his question was to the effect that you would be willing in the case of small and medium-sized borrowers to state an over-all interest rate, whether it was charged by compensating balance or otherwise, providing the interest rate went to 7¼ per cent. I think that was the question, but I am not sure.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It was on the basis that after the passage of this act it will, in effect, go to 7¼ per cent unless there is some great change in the bond market.

The CHAIRMAN (*Mr. Gray*): Mr. Cameron, may I ask one quick question based on a press report that I saw, which indicated that chartered banks in Nova Scotia are going to resist compliance with some acts of the Nova Scotia legislature calling upon the disclosing of costs of borrowing? I presume that these acts will be in existence after April 1 when I trust we will be in a position to have this in some form of final law.

One answer occurs to me immediately, and perhaps might be of interest to the Committee to know something about why you are resisting compliance with these laws?

Mr. PATON: I would say, Mr. Chairman, that the chartered banks are not resisting conforming to the province of Nova Scotia's legislation. In our reply to them we have pointed out that our counsel has advised us that this legislation is not applicable to the chartered banks and that we are, therefore, precluded from agreeing to coming under their legislation; but concurrently we advised them that legislation of a similar type was currently being considered during the hearings of this Committee and that it was expected that there would be produced federally some similar form of legislation with which the chartered banks had already indicated their willingness to conform.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): My other question, Mr. Paton, comes back to a problem that has been concerning the Committee ever since the hearings began, which is the question of what to do with the near-banks, and what is their future?

Again I would refer you to Dr. Neufeld's paper in which he has proposals for what I call a sort of interim period charter for such institutions, with the suggestion that at the end of 10 years the operations of banks and trust companies would become indistinguishable.

I wonder if you could make some comment on that. Do you think that this would be an improvement in the over-all control of the monetary institutions of the country?

Mr. PATON: Yes, I think it would be an improvement. I think the stand that we have taken, both when we appeared before the Porter Commission and subsequently, has been that we welcome competition. We have also stated that in welcoming this competition we would expect our new competitors to be subject to the responsibilities, as well as the advantages, of being a chartered bank, or of being a bank chartered under an act perhaps similar to the Bank Act. If it is necessary to attain this by two steps it would still be advantageous, but I doubt whether it is necessary, if the feeling is that this is legislation that should be passed, to have it done on a two-stage operation as Professor Neufeld has suggested.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do you think, instead, that the trust companies should divest themselves of their fiduciary functions and apply for bank charters, or that the banks should be permitted to assume fiduciary funds?

Mr. PATON: No; I do not necessarily feel that the trust companies should be asked to divest themselves of their trust powers. Perhaps the other side of the coin is the preferable one that the banks be given fiduciary powers. This is not something that we have pressed for, I do not think, in any of our presentations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you. These are all the questions I have at present, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. Clermont, followed by Mr. Fulton.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, one of the witnesses before the Committee maintained that boards of directors of banks were too large and that it was you, the bank officials who were really running the banks. And he recommended that boards of directors be smaller but more effective and one even maintained that most of the directors were but "rubber stamps." Do you agree with this?

(*English*)

Mr. PATON: No, sir; I do not agree with this, and I am not particularly thinking of my own job when I make that statement.

(*Translation*)

Mr. CLERMONT: With regard to the great number of directors on the Boards of most of our banks, are the numbers satisfactory for the requirements. Do they give satisfaction?

(*English*)

Mr. PATON: I would say yes. I would say that these boards are very representative of the business community of Canada and I know from my own bank and I am quite sure that it applies to the other banks, that these board meetings, which, I think, most of the banks hold every second week, are attended very regularly and very religiously by substantial majority of the board. As you are well aware, I think, that when annual meeting proxies are sent out, a list of the attendance of each director is attached to the notice of the annual meeting, showing how many meetings they have attended both at the head office of the bank and at their own divisional offices or the divisional regions from whence they come. I would say that the boards as of today are very representative. Speaking for myself, they are not too large and they perform a very necessary and useful function in the operation of the banks.

(*Translation*)

Mr. CLERMONT: You stated that the presence of directors was mentioned when you send proxies: Do directors attend the meetings to approve *en bloc* the recommendations of the Executive? I daresay you can answer without disclosing any board secrets.

(*English*)

Mr. PATON: The matters discussed at each board meeting would reflect each individual bank's practice, but I think I am quite safe in saying that it is not by any means a mere routine, automatic operation.

(*Translation*)

Mr. CLERMONT: Mr. Paton, if Clause 91, with regard to the rate of interest, carries in Parliament and, for instance, the rate of interest would be 7¼ percent, what would happen to consumer loans? Presently, the rate of interest is 6 percent and for various banks, this can go to 10 or 11 percent, actually. This is a hypothetical question—is it the intention of the banks to add the banking costs to the legal rate of interest you will be able to charge?

(*English*)

Mr. PATON: I think what you are suggesting, Mr. Clermont, is that if the rate were 7¼ per cent and, incidentally, on the present bond rates that we have today this ceiling would not be 7¼ per cent, as you are aware, but assuming it were—

Mr. CLERMONT: Say, 7 per cent.

Mr. PATON: If it were 7 per cent, it would not be the intention of the chartered banks to automatically increase their interest rate on consumer financing from the present approximate 10 per cent level to 11 per cent; in other words, it would not be the intention to add on the full one per cent at the time.

(*Translation*)

Mr. CLERMONT: Mr. Paton, I believe it was the representative of the Imperial Bank of Commerce who mentioned, regarding the agencies and branches of Canadian banks abroad, that the Canadian banks did not benefit from all of the advantages that the American banks benefitted from, and I think you have certain advantages in Canada that American banks do not have. For instance,

you do not have a ceiling on the rate of interest you can pay for short term deposits. I think this is one of the complaints that the American banks have made to the Canadian agencies in New York. They can pay the rates of interest they want on short term deposits while the American banks cannot.

(*English*)

Mr. PATON: The Canadian agencies, Mr. Clermont, cannot solicit deposits, in New York. In the case of competition with the American banks for the U.S. dollar outside of the U.S.—in other words, the Euro dollar—it is my understanding that there is no limitation on what the Americans can pay, and, therefore, they compete with us on even terms in that respect.

(*Translation*)

Mr. CLERMONT: I regret that I do not agree with you. American banks in the State of New York have a ceiling on the rate of interest they can pay to depositors on short-term deposits and Canadian agencies in New York cannot accept deposits from people in the State of New York but they can accept deposits from people in the State of Illinois, for instance, or Michigan.

(*English*)

The CHAIRMAN: I think he is referring to regulations under regulation 2.

Mr. PATON: In the United States.

The CHAIRMAN: Yes.

Mr. PATON: Yes, I am aware of that, and I know that you are correct in the assertion that they are limited on the interest they can pay.

I think it is true, Mr. Clermont, that strictly legally we could attract deposits say in the State of Illinois, but in practice I do not believe that this is done.

I am not sure whether that is a correct statement, and I stand to be corrected by any other members of the Bankers' Association who are here. That is a field with which I am not completely familiar.

Mr. COLEMAN: My understanding is that we cannot accept deposits from residents of the State of New York.

Mr. CLERMONT: I agree with that 100 per cent; you are not allowed.

(*Translation*)

But when we had before us the officials of the Mercantile Bank, who were also officials of the City Bank, they brought up the objection that you were not restricted by a ceiling on the rate of interest to depositors. I also think that here, in Canada, you are not restricted regarding the number of branches you can open throughout Canada but I think the American banks, especially those that operate as branches, cannot operate as many branches as they wish, unless the banking laws specify that in such a place you may have one and in other place you cannot.

(*English*)

Mr. PATON: That is correct. That illustrates one of the advantages of our branch banking system.

(*Translation*)

Mr. CLERMONT: What I wanted to bring out was that the Canadian banking system has nothing to envy from the banking system in the United States or any foreign banks for that matter.

That is all, Sir.

(*English*)

The CHAIRMAN: I now recognize Mr. Fulton.

Mr. FULTON: Mr. Paton, since we met here first you have attended a large number of sessions at which I am quite sure you have heard the discussion about the desirability or otherwise of defining "the business of banks" and "banking". Has your Association any opinion to offer to this Committee on that general question.

Mr. PATON: I think it is correct to say that we share the general concern about the lack of a definition of "banking", Mr. Fulton.

We recognize the jurisdictional problems that are involved. We feel that they are capable of solution and that it is possible, perhaps, to come up with a definition of "banking". Perhaps the best approach would be to try to do this, and have it referred to legal authorities for approval or otherwise; all of which, of course, would take considerable time.

Mr. FULTON: I do not know if you are aware of a suggestion made by Mr. David Lewis in the House of Commons about Monday of this week. I would classify it in the category of things I wish I had said myself. He suggested to the Minister that he might possibly ask the officials to include a section in the draft revision of the Bank Act, and that he take that section out and refer it to the Supreme Court of Canada for an opinion. Do you have any comment on that?

Mr. PATON: I noted this suggestion, and I think that it has merit.

Mr. FULTON: Would your association support such a proposal and be prepared to appear before the Supreme Court? Would you welcome such a reference?

Mr. PATON: I would say yes, Mr. Fulton.

Mr. FULTON: I will now proceed to my second line of questioning.

You have also been present when there has been discussion of the desirability or otherwise of bringing all non-bank financial institutions—which include, as I understand it, a number of trust companies and a number of finance and acceptance companies—under the general umbrella of federal inspection and regulation. You have heard the arguments and discussions for and against that. As head of your association, have you any opinion or advice to offer this Committee on that matter?

Mr. PATON: I think it would be consistent with the approach that we have taken, and with the evidence that we have given, to say that we feel that this would be a desirable development; that, in short, all institutions operating in a similar, if not identical, field, although not necessarily of the same size, should have the same standards of supervisory and regulatory procedures. I think this should be the ultimate goal, without any question.

Mr. FULTON: You are aware, of course, of the sensitivity, to a number of Members of Parliament and others, of the question of competition. Do you feel that application of the general regulatory and control standards would reduce the ability to compete?

Mr. PATON: It is possible, I presume, that it might reduce the number of competitors, but I think that it would equally intensify the competition between those continuing. I think there is no doubt at all that, by the very existence of these high standards of operation, the management required to run these institutions and to keep them at that standard will be capable of providing a competitive atmosphere that could be greater than it is currently.

Mr. FULTON: Then, are you prepared to see other institutions enter into the banking field provided that they are subject to the same general regulations and control features as yourself?

Mr. PATON: Yes, we are prepared to welcome into the field additional chartered banks or institutions operating under an act which would be parallel with the act governing chartered banks.

Mr. FULTON: In my third area of questioning—and I realize this is somewhat generalized, because we are approaching the end of our hearing of your association—I want to return to deposit insurance.

I am aware of the general position of your association with respect to the burden deposit insurance imposes upon the chartered banks under the present proposed legislation. I really want to ask you this question, Mr. Paton, and I would ask you to consider it carefully. Insofar as it is a device which may have the effect of bringing a number of competing, and presently, apparently, relatively unregulated institutions under the umbrella of regulation and control, do you regard it as a desirable objective? It is going to impose burdens on you, but what about the objective?

Mr. PATON: I think I probably covered that point earlier today, Mr. Fulton, in my evidence on this particular subject, that we recognize our responsibilities as an integral and very substantial part of the financial community of the country, and that it might be very difficult for us to take the position that we must be excluded, or should be excluded, from the umbrella anticipated by this deposit insurance.

We do feel strongly that it is an inequitable burden on us from the point of view of cost as indicated in the legislation proposed. We are concerned, perhaps, that chartered banks in Canada, which have operated with an unblemished record for so long, and which are possibly the envy of quite a number of countries, suddenly are faced with the obligatory requirement that they must come under deposit insurance. What would be the international reaction, perhaps, to a situation like that? We must always remember that deposit insurance was created in the United States at a time of crisis and at a time of catastrophe.

Mr. FULTON: Have we not faced at least a couple of minor crises here in Canada?

Mr. PATON: We have faced—

Mr. FULTON: Not with respect to the banks, but with respect to—

Mr. PATON: No; I would say that they have been completely localized in a certain section of the financial community and perhaps the proper approach is that the cure should be applied directly to that section.

Mr. FULTON: I take it, then, that you would rather see it compulsory than voluntary?

Mr. PATON: Compulsory to the orgnizations that are envisaged as coming under it voluntarily under this bill?

Mr. FULTON: Yes.

Mr. PATON: I think that would be a fair statement.

Mr. FULTON: Have you had a legal opinion upon the ability to make it compulsory?

Mr. PATON: No, we have not.

Mr. FULTON: So that you are not able to offer us any advice on that?

Mr. PATON: No, I think not.

Mr. FULTON: Then it is a matter of policy between us and you and the Minister of Finance?

The CHAIRMAN: My question may have been asked earlier in the evening when Mr. Laflamme was in the Chair, and if so I am sure you will tell me.

How do you reconcile your comment in reply to Mr. Fulton indicating that in effect, the banks are so sound that they do not need deposit insurance, with your ealier suggestion that inner reserves should be kept secret because the banks could suffer losses so great that disclosure of them would shake public confidence in the banks?

An hon. MEMBER: Is that what he said?

The CHAIRMAN: This may not apply to you, but I think that earlier in the hearings, I can summarize it fairly, part of the argument of the banks against disclosing inner reserves was that from time to time they have losses which, if made known, might lead to some question of the confidence of the general public in the chartered banks. Now, you have told Mr. Fulton and earlier, I suppose, others as well, that, in effect, the banks are so sound that there is no reason why they should have to have deposit insurance. What I am trying to get at, sir, is that if the banks could suffer losses—and in the course of their business this is understandable; they have to make judgments in lending money—so great that if the inner reserves were disclosed public confidence could be shaken, would it not be in the interest of the banks that public confidence should not run the risk of being shaken through the provision of deposit insurance for your institutions?

Mr. PATON: This thought has occurred to me, Mr. Gray. I do not think there is a direct relationship between the purpose of the deposit insurance legislation and the stand that we have taken with respect to disclosure of our inner reserves which, as we are all aware, is substantially a repetition of the stand that has been taken over the past four or five Bank Act revisions.

The CHAIRMAN: Mr. Paton, these hearings have been given fairly wide prominence through the attendance of the press, and your explanation of why

inner reserves should not be disclosed is not only a matter of public record here but may very well have been mentioned in various articles in the press. I have not seen them all. Since you have indicated that banks might have losses which, if they were known, would shake public confidence, would there not now remain a possible suspicion in the minds of the public unless they also knew that you would now be part of the same deposit insurance scheme?

Mr. FULTON: Is that really what Mr. Paton has said? I do not recall his having said that in those terms.

The CHAIRMAN: Not in direct reply to you; I am just mentioning the two concepts. I could be wrong, because I have not examined the exact records. If I am not summarizing Mr. Paton's views correctly I am sure he will straighten me out.

Mr. PATON: I think if I recall correctly, in discussing the question of inner reserves previously I attempted to justify the existence of these on the basis that loans made by banking institutions under certain economic conditions are good loans. As the cycle changes—and as the cycle has changed—we find, possibly that loans which originally were first-class loans have been affected detrimentally by changing conditions, so that the loss you encounter today is probably against a loan that you made 5 years ago.

I think I also said that companies do not fail on averages; they concentrate their failures, perhaps, in a specific and within a limited period of time. The experience of one bank could be quite different from the experience of another. Losses encountered in any one year on loans made in prior years might well be quite substantial, and might well need quite a substantial adjustment to the reserves of any specific bank involved.

With these inner reserves—which, as we all know, are well-controlled and limited by the Minister of Finance—such sharp fluctuations in the quality of our assets can be absorbed quietly and effectively. If the full information on these losses was made known to the public and related to the reserves of the individual bank concerned I believe I said that confidence in that bank could be affected, and could affect the banking fraternity generally. As I recall, in essence that was the evidence that I gave at the time.

The need for deposit insurance, the time at which a bank would avail itself of deposit insurance would have to be when a bank was, in effect, insolvent. This would be after all reserves of the bank had been utilized in meeting its obligations. Therefore, to my mind—and perhaps I really have not had an opportunity to study the question in depth—there is no direct connection between the suggested need for deposit insurance and the advisability of the banks' maintaining internally a cushion to offset any violent fluctuation in the economy.

Mr. FULTON: I have one final question, and I would ask Mr. Paton to bear in mind its relation to all the other discussions we have had and the views that have been at least suggested here by me—and I speak for myself, and not for my colleagues—on whether it should be made compulsory rather than voluntary, whether it should be made subject to the consent of the provincial governments, and so on. I ask you to bear all that in mind when I ask you this question: are you, as the Bankers Association, speaking for the banks, prepared to pay the premium of deposit insurance as the price of extending a desirable measure of

federal inspection and control over those non-bank institutions which, at the present time, are not subject to the kind of uniform system of inspection and control that I am speaking of? What is your reaction, as a banker, to that question?

Mr. PATON: My reaction to that, Mr. Fulton, is that deposit insurance is envisaged for the protection of the Canadian public, and, therefore, it is inequitable to have such a substantial portion of the cost centred on the segment of the financial community that perhaps is best able to withstand it, or to meet it, but also has the least need for it. Therefore, it seems to me that the government of Canada might well be prepared to meet a substantially greater part of the premium than is indicated.

In short, our figures roughly indicate that we have a 4½ million premium facing us in the banking system for the initial five of six years of the legislation. Perhaps it would be reasonable to suggest that the chartered banks would be more than meeting their obligation as a member of the financial community if this were—and I offer this as a suggestion—perhaps cut in two.

Mr. FULTON: A lower premium—a lower percentage for the banks?

Mr. PATON: Yes. How this could be arrived at I have not figured out, but I think it is our feeling that this proposed premium we are looking at, which has to be met from one source or another and the ultimate source, of course, is the consumer in the form of the bank customer might well be spread more equitably over the people who will be benefiting from the legislation.

Mr. FULTON: Is it fair to say, then, that your position is that you do not oppose deposit insurance as a device for the purposes for which it is introduced, but, that you suggest that there should be a more equitable apportionment of the cost?

Mr. PATON: Yes; I think that is a fair summation of our position.

Mr. Coleman, would you care to disagree with me on that.

Mr. COLEMAN: I think I would disagree on this point, that I think we, as a bank, feel that it should be voluntary rather than compulsory.

Mr. MONTEITH: For the bank, you mean?

Mr. COLEMAN: For anyone; I think that what come first are proper inspection and regulation and strict supervision, and I think one of the reasons that the Canadian banks are in the position they are in is that they have been very strictly supervised. I hope there has been good management, but I think that the strict supervision by the Inspector General has played a very big part in this. This is probably the reason that we do not need deposit insurance today; and I think that if we had the same, or similar, regulation and supervision in the provinces and in other federal institutions we would not need deposit insurance. I suggest that what should come first from the different jurisdictions are adequate and strict supervision and regulation, and that then we should make deposit insurance available to those deposit taking institutions that feel that they would like to have it in addition.

Mr. FULTON: Far be it for me to argue the case of the present federal government in detail, but given the fact that events have illustrated that

governments of Canada have not yet devised a sufficiently adequate scheme of control and inspection—and recent events have indicated that this situation should not be allowed to continue—surely it is not the position of the Bankers' Association that the federal government should not take some emergency measures?

Mr. COLEMAN: Well, deposit insurance, Mr. Fulton, will not be the answer if they do not provide supervision and control.

Mr. FULTON: They go hand and hand, do they not?

Mr. COLEMAN: I would suggest that you should first have proper supervision, and I see no great difficulties here: The banks are a good example, I think of the fact that we have been very strictly supervised. This is the reason, I think, for your chartered banking system being in the position in which it is today. I suggest that if any one of the provinces had this to regulate their provincially-incorporated, deposit-taking institutions they would have nothing to fear today.

Mr. FULTON: Oh, yes; that is true, Mr. Coleman; if all of us had a perfect system we would have no problems, but we do not have a perfect system.

Mr. COLEMAN: I agree; and I certainly agree that something should be done to protect the depositor. I am not arguing that point. We have had several unfortunate experiences to prove this. However, I, personally, and we, as a bank, think that we are going about it in the wrong way. We think that the system of regulation and supervision should come first, and that deposit insurance should be voluntary after that.

The CHAIRMAN: How can you have compulsory inspection and voluntary deposit insurance?

Mr. COLEMAN: If you have a system of deposit insurance there are certain standards that a company would have to meet in order to come under the umbrella of deposit insurance. I suggest that it would help them to be able to put in their window that they had deposit insurance; so that they would have to meet these standards before they would qualify.

The CHAIRMAN: Well, I would agree with what you just said, but it is my understanding that this is the scheme contemplated by the bill. For the moment I am putting aside whether it should go further.

Mr. COLEMAN: Well, I hope that is right.

The CHAIRMAN: It is my impression that what you have just said is what the government is proposing; would you agree with me?

Mr. FULTON: I have differences with the government on whether it goes far enough—

The CHAIRMAN: That is a legitimate point.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, Mr. Paton stated that deposit insurance, in the United States, was set up at a critical period, but surely this crisis has been over some time.

The CHAIRMAN: Mr. Clermont, I am sorry but the translator has left.

Mr. CLERMONT: That is all right. Mr. Paton, you mentioned in your reply to, I think Mr. Fulton, that the insurance deposit scheme in the United States was established during a crisis. That crisis passed many, many years ago, and they still have that insurance plan. I remember reading a memorandum stating that the success of the insurance plan was because there were stiff regulations and supervision, and that that was what has made it a success in the United States. I do not see why the same result should not be obtained from an insurance deposit plan in Canada.

Mr. PATON: Well, you are dealing, Mr. Clermont, with an entirely different banking context. You have nine chartered banks in Canada operating under identically the same strict supervision. In the U.S.A. this is not the case. One wonders, if there was any justification for having deposit insurance for the banks, why it was not put in—

Mr. CLERMONT: In the reply that you gave to Mr. Fulton what concerned me most was the cost.

Mr. PATON: Mr. Clermont, there is only one place that this cost can go and that is to the public; and as you know—

Mr. CLERMONT: Yes; but you mentioned to Mr. Fulton a cost of $4½ million; and I could add that you, or somebody from your organization, agred that after five years the cost will come down to $2½ million.

Mr. PATON: That is correct, sir; but five times $4½ million is still a substantial figure.

Mr. CLERMONT: Yes; but with the privilege, or the right, to increase your interest rate on loans—

The CHAIRMAN: Perhaps we should continue for a few more moments so that Mr. Monteith can ask some questions.

Mr. MONTEITH: I have not asked any all day except as interjections. I shall be very brief.

Mr. Paton, as you are undoubtedly aware, the Minister of Labour made an announcement in the House yesterday concerning housing money. I think he intimated—although I do not have the copy of *Hansard* here—that he hoped for assistance from the banks in this respect. Can you see the banks being in a position to be of material assistance in providing loans?

Mr. PATON: The comment in the *Globe and Mail* this morning, Mr. Monteith—

Mr. MONTEITH: Oh, was it discussed this morning?

The CHAIRMAN: I think I should say, to assist Mr. Paton, that he was the star performer at a panel discussion sponsored by the Homebuilders at their conference and I guess that his remarks were quoted. I think that is what he means.

Mr. PATON: Yesterday at lunch in Toronto the Minister of Finance spoke at the luncheon of the National House Builders Association, following which there was a panel which included Mr. Hignett and a representative from the Life Insurance Companies and myself.

The CHAIRMAN: Perhaps you can refresh our memory on what was said.

Mr. PATON: Well, on that panel I said that undoubtedly the Canadian chartered banks welcomed this new provision in the bank bill, which would enable them to participate once again in NHA mortgages and also now in conventional mortgages. I cautioned the group that they should not look for an immediate resurgence of the banks' participation in the mortgage market to the extent that we had in 1959, at which time we constituted a very substantial part of the NHA market. I said that we had gained considerable expertise over these years in which we participated in the mortgage lending field which was still with us and that, therefore, when we resumed this type of lending we would be starting on a more experienced base than we did in 1954 when we first took it on.

In general I gave an indication that we would be very anxious to participate to the extent that we could, bearing in mind the very substantial demand that currently existed for loans generally.

I also made reference to the potential debenture facility that we have, which, being long-term funds, conceivably, or at least notionally, could be allocated toward long-term lending.

Mr. MONTEITH: I have one other question, Mr. Chairman. Mr. Paton, what are the assets of your bank now, in round figures?

Mr. PATON: $3 billion.

Mr. MONTEITH: How would you go about reducing those assets by 10 per cent if you were forced to by law?

Mr. PATON: I would look around for a partner.

Mr. MONTEITH: I am asking a very serious question because it applies in the case of the Mercantile Bank, if they have to come down to $200 million from $225 million.

Mr. PATON: I have never given consideration to the problem, Mr. Monteith, but I think if I had to, it is something that I could do reasonably quickly.

Mr. COLEMAN: We would be glad to take it.

The CHAIRMAN: Do you have any further questions, Mr. Monteith?

Mr. MONTEITH: No.

The CHAIRMAN: This may have been dealt with earlier but I think this, perhaps, fits in with what you just asked. What does a chartered bank do if it does not have a branch in a particular community and wants to extend service to a customer who lives in that community? In other words, say a person is a customer in Toronto of a particular bank and he has business in another community where that bank does not have a branch. What is done?

Mr. PATON: Assuming that a manufacturer doing business in Toronto opens a plant elsewhere in Ontario where the bank concerned does not have a branch?

The CHAIRMAN: Yes.

Mr. PATON: In all probability, Mr. Gray, the major account of that customer would still be maintained in Toronto at the head office. Their payroll and petty cash operation would be handled by one of the banks or the bank in the area concerned. If the new location was one which had attraction to the bank holding

the account and if this particular client's business was sufficiently large to provide the necessary further incentive to go in, then it is quite possible that the bank holding the account would open a branch in this community.

The CHAIRMAN: Mr. Monteith just made reference to the Mercantile. I understand that they have only seven branches at this time. Who represents the Mercantile in other places in Canada where they may have dealings?

Mr. PATON: I am not in a position to answer that question, Mr. Gray; I do not know whether any of my colleagues could.

Mr. COLEMAN: I would say, Mr. Chairman, that no particular bank does. I would think a customer having his principal account with the Mercantile, say in Montreal, and has an operation in, let us say, Sydney, Nova Scotia where there is no Mercantile, it would probably go to whatever bank was the most convenient for it.

The CHAIRMAN: I see.

Mr. COLEMAN: I doubt whether the Mercantile would try to direct that business to a particular bank.

The CHAIRMAN: It has been suggested to me—and this information may be completely erroneous—that in most communities where the Mercantile Bank does not have its own branch, one particular chartered bank represents it, namely the Bank of Montreal.

Mr. COLEMAN: I have never heard of that but it is quite possible.

Mr. PATON: I can neither support that nor refute it, Mr. Chairman.

Mr. T. HACKETT: This is the first time that this has been adduced in my hearing.

The CHAIRMAN: There is no one here who can provide the information on that question?

Mr. PATON: I would say not. No one here knows whether or not that is a correct statement.

Mr. COLEMAN: I have never heard the slightest suggestion of that.

The CHAIRMAN: Well, if my information in that regard is not correct I want to say I certainly am not attempting to put it forward as a definite fact. I was curious.

Mr. FULTON: I hope then, Mr. Chairman, that you will put on record that you have no evidence to support that contention, unless you have.

The CHAIRMAN: Well, somebody had communicated the suggestion to me and I want to make very clear—

Mr. FULTON: This is not really good enough.

The CHAIRMAN Yes, I will be quite prepared to accept your reservation along the lines you put it. I think you are quite right in that regard.

Mr. PATON: Mr. Hackett would like to make a statement.

Mr. FULTON: It has certain implications with respect to evidence which was given by an individual before this committee.

Mr. HACKETT: I think it is appropriate, Mr. Chairman, that in the light of that comment I should introduce another comment that may bear on this rumour. It is known that the Chairman and President of the Bank of Montreal presented a brief, I think it was on the 1st of December, which had to do with clause 75(2)(g), and I think that brief is Appendix S to the proceedings of that day. Speaking from memory, I think it is section F of that brief where—the Chairman and President of the Bank of Montreal said—and you will forgive me because this is a quotation from memory: "I hold no brief for the Mercantile Bank or its parent concern but to me there is a basic matter of principle involved here. That is why I am so strongly opposed to clause 75(2)(g)." Now I think that observation probably becomes relevant at this point. Thank you.

The CHAIRMAN: I did not attempt to suggest otherwise. When I was absent earlier in the day were there discussions about having the Canadian Bankers' Association return at any particular time?

An hon. MEMBER: No.

Mr. LAFLAMME: Mr. Chairman, it is not because we would not like to see them back but because we have to get through with the bill.

Mr. FULTON: They may have other business to do.

The CHAIRMAN: I am sure they have. Perhaps they want to get ready for the extra opportunities and responsibilities they will have if the House adopts the government's proposals wholly or in part.

Gentlemen, we should thank you for again submitting yourselves to our further questioning arising out of our study of other suggestions brought forth by other witnesses. Certainly you have been more than patient. I think you have added to the store of knowledge of all of us on the committee, I am sure it will assist us in our own deliberations. In saying this, I am sure I speak for the entire committee.

However, I understand that the committee did suggest that the Governor of the Bank of Canada come back Thursday morning, with the Minister of Finance to follow when the committee had finished questioning the governor as they were not able to complete their questioning this morning. Am I correct in this?

Mr. LAFLAMME: Mr. Chairman, I think 30 minutes should be sufficient for the governor to finish answering questions because only one or two members indicated that they had a few questions left to ask.

The CHAIRMAN: Your comments have been noted, and I am sure those of us that were here throughout the day will be happy to remind others who may have forgotten that this is, in fact, the case.

Mr. CLERMONT: Mr. Chairman, I think I am one of the two or three. If the other two want to withdraw I have no objection; but I am speaking only for myself.

The CHAIRMAN: I am informed that the governor is quite prepared to return for a period Thursday morning; that being the case, Mr. Clermont, I think, you should have the opportunity, with the others, to ask your questions. I think we are agreed on that.

We will adjourn until Thursday morning at 11 o'clock.

APPENDIX "QQ"

THE CANADIAN BANKERS' ASSOCIATION
50 King Street West Toronto 1, Ontario

January 23, 1967.

Herb Gray, Esq., M.P.,
Chairman, Standing Committee on
Finance, Trade and Economic Affairs,
Parliament Buildings,
West Block, Room 331,
Ottawa, Canada.

Dear Mr. Gray:

Canadian-United States Comparison of Bank Service Charges

We wish to submit for the attention of yourself and the other members of your Committee a few comments on the memorandum of November 29, 1966, on the subject of bank service charges prepared by Miss Prentis for Mr. Clermont. It is the comparison between Canadian and United States charges in particular on which we would like to enter reservations.

Service charges in the U.S. vary from bank to bank not only in individual rates but also in the complexity and comprehensiveness of rate structures and the extent to which charges are actually applied to and collected from customers, Up-to-date and comprehensive information on such charges is very inadequate, our own recent enquiries from banking associations there having brought replies to the effect that no surveys have been made for many years and that current and reliable information on the subject is not available. We attempt to keep reasonably well informed in the Association and have excellent contacts both directly and through our members with banks in the United States, and we would express the view based on our own experience that an adequate study of the subject would require many months' work by a Canadian researcher. Our main present purpose therefore is to enter a strong note of caution regarding the degree of authenticity to be attached to conclusions that could be drawn from an over-simplified presentation such as that now before you. We also wish to bring to your attention some errors of fact and some significant omissions in that presentation.

In order to establish the point we are making we have in recent weeks attempted to obtain up-to-date information from individual and representative U.S. banks and later use this material to demonstrate the type of calculation that would have to be made on a large scale to obtain a comprehensive comparison of U.S. and Canadian pricing for bank services. However, before presenting these calculations there are some observations we would make on specific points in the memorandum in question.

It is stated in the second paragraph that there is a wide range of charges for the same service as between banks in the U.S. This is true, but what is more important is that there is also a very wide variety of types of charges. It is

therefore not reasonable to pick one or two individual items out of context and compare these items. In order to arrive at any worthwhile conclusion it is necessary to examine the total transactions of a representative sample of bank customers and determine the cost to each of them of the whole of their depositor/bank relationship. Under this sort of examination some U.S. banks when compared with others would be discovered to be expensive to some types of customers and cheaper to other types of customers, and the same would be found to apply as between U.S. banks and Canadian banks. As the foregoing is mainly applicable to commercial accounts for convenience in developing this thought the various types of accounts are dealt with separately hereunder.

Savings Accounts

Savings accounts in Canada cannot be compared with savings accounts in the U.S. as the latter are true savings accounts and are therefore noncheckable.

Personal Chequing Accounts

In both countries service charges for the routine operation of personal chequing accounts (generally known in the U.S. as special checking accounts) are usually collected by means of one charge expressed as a rate per cheque issued. In Canada this is 10 cents per cheque—in the U.S. it ranges upwards from 10 cents to 25 cents per cheque. In addition certain other charges may be made in both countries and typical schedules of rates are compared in the attached Table I. Some U.S. banks employ a minimum balance technique beginning with no charge for a limited number of cheques if a certain minimum balance is maintained. The minimum balance requirement may be as low as $100 or as high as $500. If the required minimum balance is not maintained most banks make a flat monthly charge which varies from $1 to $4. Per item charges as low as 6 cents and as high as 10 cents are assessed where the number of cheques issued exceed the number of free debits which are allowed for the minimum balance which the customer keeps in his account. A few banks make a straight per item charge for each cheque plus a flat charge for maintenance fee and then allow a reduction in the monthly service charge for each $100 of average monthly balance at rates which vary from a low of 10 cents to a high of 36 cents per $100 per month.

This is the area of greatest comparability in service charges between Canadian and U.S. banks and in this connection the following extract from a report of a limited survey of banks in the Niagara Falls area of New York and Ontario made by Adler F. Jung, Associate Professor of Marketing, Graduate School of Business, University of Chicago and published in the March 1965 issue of The National Banking Review is of interest:

Commercial Bank Charges

"III Conclusion

The banks in Niagara Falls, Ontario offered significantly lower rates than Niagara Falls, New York, banks on the three services studied; automobile loans, personal unsecured loans and personal checking accounts. Some have

contended that because of the limited number of banks in Canada due to nationwide branching, competition is lessened and the consumer pays more for banking services. This hypothesis does not appear to hold true on the Niagara frontier, and a spot check revealed that charges for similar services at Buffalo banks were above the charges for these services at Toronto banks."

Current Accounts

Current accounts in Canada are generally operated for business purposes and are the equivalent of the Regular Checking Accounts in the U.S. banks which are also operated generally for business purposes. When considering service charges it is necessary to divide these accounts into two parts the first part containing accounts subject to a direct charge and the second part containing accounts subject to analysis. It is not possible to define exactly the type of account included in each part but in general direct charge accounts are those with simple uncomplicated deposits and less than a total of 100 debit and credit entries per month. Accounts subject to analysis are usually analyzed periodically to determine the amount of monthly remuneration required and this amount remains unchanged until the next analysis. In the U.S.A. the rates used for direct charge or account analysis purposes are usually the same whereas in Canada the rates are different.

There is a tremendously wide variety of regular checking account plans, rates and allowances in use by U.S. banks and in the attached Table II some of the more usual items of charge are compared with those of Canadian banks. You will note that the table shows separately rates used for direct charge accounts and for accounts subject to analysis. Some of the rates differ from those shown in the table attached to the memorandum and in the case of the Canadian rates this is due to misinterpretation in the table.

Although omitted from the table, except for the mention in the footnote, the rates allowed as earnings credits on balances maintained are shown on Table II as these are important factors in determining the total amount of charges paid. Low rates of unit service charges and low rates of earnings credit can in similar cases result in exactly the same total service charge as high rates of unit service charges and high rates of earnings credit.

For accounts subject to analysis the combinations of various rates and allowances are so many that it is next to impossible to make general statements about the level of service charges in the U.S. or about one bank as compared with another. Comparisons between banks can only be made by the use of typical cases, comparing the total charge that would be paid in each case in one bank with the total charge that would be paid in the same case in another bank. It follows that it is just as impossible to make a comparison of the general level of service charges in U.S. banks with the general level of service charges in Canadian banks.

An attempt has been made in the attached Table III to illustrate these difficulties by using a few typical cases comparing the charges that would be incurred in a Canadian bank with those that would be incurred in a major New York City bank. These cases clearly show that whether the advantage is with the

customer of a Canadian bank or the customer of the U.S. bank depends upon the particular pattern of business of each customer.

It is true that in the U.S. there is evidence that the costs of providing services substantially exceed the corresponding charges as almost every issue of U.S. banking publications contain articles to that effect by bankers, management consultants and academicians. The memorandum however omits to mention the counterbalancing fact that the U.S. banks allow too low an earnings credit rate on balances when analyzing accounts for service charge purposes. As will be seen from the attached calculations this is frequently a sufficiently important difference to offset the lower rate of service charges. Incidentally, Canadian banks also follow the practice of charging less than the cost of providing services.

As Miss Prentis states Canadian banks are now applying service charges more meticulously than in the past and this tendency is also apparent in the U.S. as a perusal of U.S. banking literature will attest. In both countries this trend has been forced by rising cost of doing business and the impossibility of continuing to provide services on a free basis. This is not of course peculiar to banks and there are numerous instances of other industries charging for erstwhile free services.

The practice of requiring clients to maintain minimum balances in their accounts has always been widespread but the requirements are probably subject to better supervision these days. These balances are in fact the "demand deposit balances" that have appeared as liabilities in the banks' balance sheets ever since banks have existed.

In recent years there has been a tendency in the U.S. for corporations to keep these balances as low as possible and this is aided and abetted by the ingrained habit of U.S. banks in under-pricing for services and under-crediting for balances, as is exemplified in the cases used as examples in Table II. However, there is no conscious movement on the part of U.S. banks to drop the practice of requiring balances to be maintained in compensation for services rendered. In fact the contrary is true in that the banks are constantly endeavouring to raise the amount of the interest free demand deposits left with them but are hindered in this by the habit previously quoted. If there is any trend away from compensating balances it is certainly not out of any charitable motives on the part of the U.S. banks, but rather is a recognition of the fact that realistic service charges are a more certain form of revenue than a required minimum balance, the maintenance of which frequently requires considerable policing on the part of the bank. Thus any trend that there is indicates a desire for a larger and more certain revenue—not the reverse.

There is also a tendency on the part of U.S. banks to keep new services, particularly those associated with computers, quite separate from those directly related to the operation of a demand deposit account and to keep them on a fee for service basis. However, as we have said, for the traditional services related to a demand deposit account the preference of U.S. banks apparently is still to require the maintenance of balances rather than the payment of fees. This assertion is amply supported by the statements of various bankers given in response to recent enquiries addressed to them on the subject (Schedule A).

The statement on exchange charges on out-of-town cheques made in the final sentence is incorrect but the error is shared by some well-known academicians. Section 92 refers only to discounted items and to the charges for collecting such items. When a bill or note is discounted it is equivalent to a loan being made for the term of the instrument and the amount of discount is equivalent to interest for the period. In addition the instrument has to be collected in the same manner as a bill of exchange which is given to the bank for collection and the charges under Section 92 are analogous to the collection charges on a collection item. Out-of-town cheques are neither discounted nor collected but are deposited and cleared. Out-of-town exchange charges apply only to clearing items not collection items and the charge itself has a long history antedating the first Bank Act by many years. Like most other common charges for banking services the charge for exchange on out-of-town cheques is not specifically spelt out in the Act.

We trust that this memorandum will assist the Committee in its very important task. A copy is being given also to Miss Prentis, and if you wish all members of the Committee to have it we will be glad to supply the necessary number.

Yours sincerely,

(Signed) "J. H. Perry",
Executive Director.

TABLE I

PERSONAL CHEQUING ACCOUNTS IN CANADA COMPARED WITH SPECIAL CHECKING ACCOUNTS IN THE U.S.A.

Typical Schedules of Service Charges

	Canada	U.S.A.
Deposits credited to account	Nil	Nil
Items included on deposits:		
Cheques	Nil	Nil
Currency	Nil	Nil
Cash	Nil	Nil
Cheques debited to account	10¢ each	10¢ each
Cheques drawn on account returned NSF	$2.00 each	$2.00 each
Cheques drawn on account returned as "Drawn against Uncollected Funds"	Not applicable	$2.00 each
Cheques drawn on account paid against Uncollected Funds	Nil	$2.50 each
Cheques included on deposits returned unpaid from other banks	Nil	.50¢ each
Stop Payment Orders	Nil	$2.00 each
Certification	Nil	.50¢ each
Cheques drawn on incorrect form	Nil	.50¢ each
Maintenance	Nil	.50¢ per month
Earnings Allowance on Balances maintained	Nil	Nil

CURRENT ACCOUNTS IN CANADA COMPARED WITH REGULAR CHECKING ACCOUNTS IN THE U.S.A.

Some Examples of Service Charges

	Canada		U.S.A.
	For "Direct Charge" Accounts	For Accounts subject to analysis	For "Direct Charge Accounts" and Accounts subject to analysis
Deposits credited to account	10¢ each	10¢ each	5¢ to 35¢ each
Items included on deposits:			
Cheques "on us"	Nil	(1) Nil	1¢ to 5¢ each
—other	Nil	4¢ each	2¢ to 5¢ each
Currency	Nil	(2) 45¢ or 95¢ per $M	(3) 10¢ to 75¢ per $M or $5.00 per hour
Coin	Nil	(2) $1.00 or $1.80 per $C	(3) 10¢ to 40¢ per $C or $5.00 per hour
Cheques debited to account	10¢ each	(4) 8¢ or 10¢ each	4¢ to 9¢ each
Cheques drawn on account returned N.S.F.	$2.00 each	$2.00 each	$1.00 to $4.00 each
Cheques drawn on account returned as "Drawn against "Uncollected Funds"	Not applicable	Not applicable	$2.00 to $3.00 each
Cheques drawn on account paid against "Uncollected Funds"	Nil	Nil	(5) $2.00 to $2.50 each
Cheques included on deposits returned unpaid	Nil	Nil	25¢ to 60¢ each
Stop Payment Orders	Nil	Nil	$1.00 to $6.00 each
Certification	Nil	Nil	25¢ to $2.00 each
Maintenance	Nil	Nil	50¢ to $3.50 per month
Earnings Allowance on Balances maintained	2.4%	3.00%	1.2% to 3.6%

NOTES:

(1) Cheques drawn on the branch where deposited.

(2) This charge is only made when accounts are substantial, $100,000 per month of currency and $5,000 per month of coin. The lower rates apply when the deposit is in good order requiring little culling, etc.

(3) The rates par $M apply to small amounts deposited and the rates per hour to large amounts deposited. Some U.S. banks make no charge for small amounts of currency or coin deposited.

(4) The lower rate applies where more than 500 items are debited in one month.

(5) Some banks charge interest on amount of the cheque in addition.

TABLE III

Comparison of service charges on Current Accounts in Canada with service charges on "Regular Checking Accounts" in a large New York City Bank using typical cases.

CASE A: SMALL COMMERCIAL ACCOUNT ON DIRECT CHARGE BASIS

			Canada		New York
Deposits credited to account....	20	at 10¢ each	$2.00	N/C	
Items included on deposits:					
Cheques—"On us".....	20	N/C	—	at 3¢ each	.60
—Other.....	120	at 4¢ aech	$4.80	at 3¢ each	3.60
Currency.....	$4,000	N/C	—	at 60¢ per $M	2.40
Coin.....	$ 100	N/C	—	at 40¢	.40
Cheques debited to account....	60	at 10¢ each	$6.00	at 6¢ each	3.60
Cheques deposited returned unpaid.....	2	N/C	—	at 50¢ each	1.00
Stop Payments.....	1	N/C	—	at $1.00	1.00
Maintenance Charge.....			—		.75
Total Charges for month.....			$12.80		$13.35
Less Earnings Credit on $3,000 Balances Maintained.....		at 2.4% P.A.	6.00	at 1.56% p.a.	3.90
ACTUAL CHARGE MADE TO CUSTOMER.....			$ 6.80		$ 9.45

CASE B: SMALL COMMERCIAL ACCOUNT ON DIRECT CHARGE BASIS

			Canada		New York
Deposits credited to account....	10	at 10¢ each	$1.00	N/C	—
Items included on deposits:					
Cheques—"On us".....	10	N/C	—	at 3¢ each	.30
—Other.....	60	at 4¢ each	$2.40	at 3¢ each	1.80
Currency.....	Nil	N/C	—	at 60¢ per $M	—
Coin.....	Nil	N/C	—	at 40¢ per $C	—
Cheques debited to account....	40	at 10¢ each	$4.00	at 6¢ each	2.40
Maintenance.....			—		.75
Total Charges for month.....			$7.40		$5.25
Less earnings Credit on $2,000 Balance maintained.....		at 2.4%	4.00	at 1.56%	2.60
ACTUAL CHARGE MADE TO CUSTOMER.....			$3.40		$2.65

TABLE III (Continued)

Comparison of service charges on Current Accounts in Canada with service charges on "Regular Checking Accounts" in a large New York City Bank using typical cases

CASE C—SMALL COMMERCIAL ACCOUNT ON DIRECT CHARGE BASIS

		Canada		New York	
Deposits credited to account	5	at 10¢ each	$ .50	N/C	
Items included on deposits:					
Cheques—"On Us"	10	N/C	—	at 3¢ each	.30
—Other	5	at 4¢ each	.20	at 3¢ each	.15
Currency	$3,000	N/C	—	at 60¢ per $M	1.80
Coin	$ 50	N/C	—	at 40¢ per $C	.20
Cheques debited to account	20	at 10¢ each	2.00	at 6¢ each	1.20
Cheques paid against "Uncollected Funds"	2	N/C	—	at $2.50 each	5.00
Total Charge for month			$2.70		$8.65
Less Earnings Credit on $1,000 Balance maintained		at 2.40 p.a.	2.00	at 1.56% p.a.	1.30
ACTUAL CHARGE MADE TO CUSTOMER			$ .70		$7.35

CASE D—COMMERCIAL ACCOUNT SUBJECT TO ANALYSIS

		Canada		New York	
Deposits credited to account	20	at 10¢ each	$ 2.00	N/C	—
Items included on deposits:					
Cheques—"On Us"	1,000	N/C	—	at 3¢ each	$ 30.00
—Other	6,000	at 4¢ each	240.00	at 3¢ each	180.00
Currency	$4,000	N/C	—	at 60¢ per $M	2.40
Coin	$ 200	N/C	—	at 40¢ per $C	.80
Cheques debited to account	2,500	at 8¢ each	200.00	at 6¢ each	150.00
Cheques deposited returned unpaid	2	N/C	—	at 50¢ each	1.00
Maintenance Fee			—		.75
Total Charge for month			$442.00		$364.95
Less Earnings Credit on $80,000 Balance maintained		at 3.00% p.a.	200.00	at 1.56% p.a.	104.00
ACTUAL CHARGE MADE TO CUSTOMER			$242.00		$260.95

TABLE III (Continued)

Comparison of service charges on Current Accounts in Canada with service charges on "Regular Checking Accounts" in a large New York City Bank using typical cases

CASE E—COMMERCIAL ACCOUNT SUBJECT TO ANALYSIS

	Canada		New York	
Activity the same as in Case D: Total Charge for month (as per Case D).		$442.00		$364.95
Less Earnings Credit on $60,000 Balance maintained	at 3.00% p.a.	150.00	at 1.56% p.a.	78.00
ACTUAL CHARGE MADE TO CUSTOMER		$292.00		$286.95

CASE F—COMMERCIAL ACCOUNT SUBJECT TO ANALYSIS

	Canada		New York	
Activity the same as in Case D: Total Charge for month (as per Case D).		$442.00		$364.95
Less Earnings Credit on $100,000 Balance maintained	at 3.00% p.a.	250.00	at 1.56% p.a.	130.00
ACTUAL CHARGE MADE TO CUSTOMER		$192.00		$234.95

CASE G—COMMERCIAL ACCOUNT SUBJECT TO ANALYSIS

	Canada		New York	
Activity and balance maintained same as in Case D except that 40 cheques paid against "Uncollected Funds" Total Charge for month (as per Case D).		$442.00		$364.95
40 cheques paid against "Uncollected Funds"	N/C	—	at $2.50 each	100.00
Total Charge for month		$442.00		$464.95
Less Earnings Credit on $80,000 Balance maintained	at 3.00% p.a.	200.00	at 1.56% p.a.	104.00
ACTUAL CHARGE MADE TO CUSTOMER		$242.00		$360.95

Comparison of service charges on Current Accounts in Canada with service charges on "Regular Checking Accounts" in a large New York City Bank using typical cases

Summary of Actual Charges made to Customers

Case	Canada $ per month	New York $ per month
A	6.80	9.45
B	3.40	2.65
C	.70	7.35
D	242.00	260.95
E	292.00	286.95
F	192.00	234.95
G	242.00	360.95

SUMMARY OF VIEWS EXPRESSED BY UNITED STATES BANKERS ON QUESTION OF COMPENSATING BALANCES OR DIRECT FEES FOR SERVICES

"As remuneration for service rendered, a bank can require that adequate working balances be maintained on deposit or in lieu of such balances can impose direct fees for its various services. What is the practice in your State and are bankers abandoning the working balance arrangement in favour of realistic pricing of services?"

New York State

Banks are striving to make a reasonable profit on all services performed by requiring either balances or fees. The only trend toward greater use of fees is associated with new services which utilize electronic data processing where the bank prefers to be compensated by way of a fee. In casual discussions with the banks we were unable to detect any trend of abandoning the concept of requiring free working balances in favour of the payment of fees.

One large bank would rather forego a fee on a commercial account in the hope they could convince the customer to maintain adequate compensating balances. They do not want the customer to think he can pay for banking services by other than the compensating balance method and they would go so far as to request removal of an account for lack of compensating balances before instituting a fee arrangement.

California

The practice for services rendered, particularly those of a computer oriented nature, is to charge for the services on a cost basis rather than on a compensating balance relationship. Many banks are still operating on the compensating balance theory, however they are gradually converting to a direct cost assessment, particularly for any new arrangements with customers.

Illinois

The compensating balance feature appears to receive different interpretation among the banks. Charges for computer services tend to be assessed on a "per item" basis whereas charges for some other services are being handled on the compensating balance basis.

Accounts are rated mainly by balance considerations and other collateral advantages and in cases where a trend is developing toward per item charges (instead of compensating balances) it is because high money market rates have led corporate treasurers to reduce the level of free balances and because computer analysis permits closer cost accounting by banks and facilitates per item charging.

Texas

Both banks say there is a definite tendency to pricing of computer-oriented services and their customers find this preferable. On the other hand, for services such as lock box, maintenance of compensating balances is customary. Prompted in part by tight money condition which is leading to generally reduced balances, more emphasis is being placed on pricing of services.

Washington State

There has been no move on the part of banks in the area to abandon or ease requirements with respect to compensating balances. Quite to the contrary, it is believed there is a stiffening of the attitude of the banks in cases where corporate treasurers have begun moving in the direction of reduced free balances. In cases where compensating balances are waived, loan rates are increasd proportionately and where a compensating balance agreement is not adhered to by the customer a deficiency charge is applied.

The President of the Federal Reserve Bank, Twelfth District, with headquarters in San Franciso (the District includes the States of California, Nevada, Idaho, Montana, Oregon, Alaska and Washington) says that while there were exceptions from bank to bank the maintenance of compensating balances remains a feature of the American banking picture. He ventured the opinion too that due to tight money conditions the banks were currently adopting a firmer attitude toward compensating balances.

APPENDIX "RR"

COMPARISON OF SOME OF THE PRINCIPAL CHARGES MADE TO NEAR BANKS

Charges Made for:—	Credit Unions			Caisse Populaire		Mortgage, Loan and Trust Companies
	Plan A Local Unions	Plan B				
		Local Unions	Centrals	Local Caisses	Central Caisses	
Clearing Orders	5¢ per item plus $100 annually	5¢ per item	5¢ per item	5¢ per item	5¢ per item*	5¢ per item plus $100 annually
Clearing House Fees (Annual)	Toronto $300 Montreal $300 Vancouver $150 Other C.H. Points $100	None	None	None	None	Toronto $300 Montreal $300 Vancouver $150 Other C.H. Points $100
Clearing Local Cheques and Other Local Items Deposited	2–½¢ per item after allowing 4 free items for each $50 of minimum monthly balance	2–½¢ per item after allowing 4 free items for each $50 of minimum monthly balance	2–½¢ per item after allowing 4 free items for each $50 of minimum monthly balance	2–½¢ per item after allowing 4 free items for each $50 of minimum monthly balance	2–½¢ per item after allowing 4 free items for each $50 of minimum monthly balance	None
Exchange on Out of Town Cheques and Other Out of Town Items Deposited	Up to $1,000 1/8% Minimum 15¢ $1,000 to $2,500 1/10% Minimum $1.25 Over $2,500 11/6% Minimum $2.50	Not Applicable	Up to $5,000 5¢ ea. plus 1/10% on daily total Over $5,000 1/16% Minimum $5 each item	Not Applicable	Up to $5,000 5¢ each plus 1/10% on daily total Over $5,000 1/16% Minimum $5 each item	Up to $2,500 1/8% Minimum 20¢ $2,500 to $10,000 1/10% Minimum $3.15 Over $10,000 subject to negotiation Minimum $10
Service Charges on Accounts	10¢ per entry after allowing one free entry for each $50 of minimum monthly balance (counting 4 local items deposited or 4 orders debited as 1 entry)	10¢ per entry after allowing one free entry for each $50 of minimum monthly balance (counting 4 local items deposited or 4 orders debited as 1 entry)	None	10¢ per entry after allowing one free entry for each $50 of minimum monthly balance (counting 4 local items deposited or 4 orders debited as 1 entry)	None	None specially applicable to clearing privileges

*For the clearing of orders drawn on outside points Central Caisses at Montreal and Quebec charge banks 1/16% on the daily total, without minimum.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 42

THURSDAY, FEBRUARY 2, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

The Hon. Mitchell Sharp, Minister of Finance; Mr. C. F. Elderkin, Special Adviser, Department of Finance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25641—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Chrétien,
Clermont,
Coates,
Comtois,
Davis,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Latulippe,
Leboe,
Lind,
Macaluso,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, February 1, 1967.

Ordered,—That the name of Mr. Leboe be substituted for that of Mr. Johnston on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25641—1½

MINUTES OF PROCEEDINGS

THURSDAY, February 2, 1967.
(85)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Davis, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Monteith, Valade—(13).

Also present: Messrs. Mackasey and Patterson.

In attendance: The Honourable Mitchell Sharp, Minister of Finance; Mr. C. F. Elderkin, Special Adviser, Department of Finance; and Miss M. R. Prentis, research assistant.

The Committee resumed consideration of the banking legislation.

The Minister made an opening statement dealing with a definition of "banking" and with the clearing system, and was questioned. He was assisted in answering questions by Mr. Elderkin.

The questioning continuing, the Committee adjourned at 12.50 p.m. until 3.45 p.m. this day.

AFTERNOON SITTING
(86)

The Committee resumed at 3.45 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Davis, Flemming, Fulton, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, Monteith, More (*Regina City*), Valade—(17).

Also present: Messrs. Mackasey and Thompson.

In attendance: The same as at the morning sitting.

The Minister made a statement on the subject of agencies or branches of foreign banks and was questioned, being assisted by Mr. Elderkin in answering questions.

The questioning continuing, the Committee adjourned at 6.00 p.m. until 8.00 p.m. this day.

EVENING SITTING
(87)

The Committee resumed at 8.10 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Flemming, Fulton, Gilbert, Gray, Lambert, Latulippe, Lind, Monteith, More (*Regina City*)—(13).

Also present: Messrs. Mackasey and Thompson.

In attendance: The same as at the morning and afternoon sittings.

Questioning of the Minister was resumed, following which the Minister made a statement on three proposed amendments to Bill C-222.

The Minister stated that the first two amendments, dealing respectively with foreign ownership and limitation in ownership of chartered banks in other corporations, have not yet been drafted but he discussed them in principle and was questioned thereon.

The third proposed amendment introduced by the Minister is as follows:

That Bill C-222, An Act respecting Banks and Banking be amended

(a) by inserting immediately after line 22 on page 76 thereof the following:

Definitiions. "Cost of borrowing."

"92. (1) In subsections (2) to (5),

(a) "cost of borrowing" means, in relation to a loan or advance,

(i) the interest or discount thereon, and

(ii) any charges in connection therewith that are payable by the borrower to the bank or to any person from whom the bank receives any part of such charges directly or indirectly;

"Credit."

(b) "credit" means an arrangement for obtaining loans or advances; and

"Prescribed."

(c) "prescribed" means prescribed by regulations made under this section.

Application.

(2) Subsections (1) to (5) do not apply in respect of a credit granted or a loan or advance made to a corporation, partnership or association.

Disclosure of cost of borrowing.

(3) Where, after the coming into force of this subsection, the bank grants to a person a credit in respect of loans or advances repayable in Canada or makes to a person a loan or advance repayable in Canada, the cost of borrowing, is calculated and expressed in accordance with subsection (4), shall be disclosed by the bank, or otherwise as prescribed, to such person in the manner prescribed and at the time when the credit is granted or the loan or advance is made otherwise than under a credit, as the case may be; but this subsection does not apply in respect of any class of loans or advances that are prescribed as not being subject to its provisions.

(4) The cost of borrowing shall be calculated, in the manner prescribed, on the basis of all obligations of the borrower being duly fulfilled, and shall be expressed as a rate per annum and, under the circumstances prescribed, as an amount in dollars and cents. Calculation of cost of borrowing.

(5) The Minister may make regulations Regulations.

(a) respecting the manner in which the cost of borrowing shall be disclosed to a borrower;

(b) respecting the manner of calculating the cost of borrowing;

(c) respecting the circumstances under which the cost of borrowing is to be expressed also as an amount in dollars and cents;

(d) specifying any class of loans or advances that are not to be subject to the provisions of subsection (3); and

(e) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(6) The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer, nor, except by express agreement between the bank and the borrower, shall be making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank. Account charges and minimum balance.

(7) Subsections (1) to (5) shall come into force six months after the coming into force of this Act or on such earlier day as the Governor in Council may fix by proclamation."; Coming into force.

(b) by renumbering clause 92 on page 76 thereof as subclause (1) of clause 93 and by renumbering subclause (1) of clause 93 on page 76 thereof as subclause (2);

(c) by striking out line 1 on page 77 thereof and by substituting therefor the following: "(3) Nothing in subsection (2) shall be con-"; and

(d) by striking out line 6 to 9, inclusive, on page 77 thereof.

Copies of the proposed amendment were distributed to the members and the Minister was questioned, assisted by Mr. Elderkin.

At 9.30 p.m., the division bells having rung, the Committee adjourned until 8.00 p.m., Monday, February 6, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

THURSDAY, February 2, 1967.

The CHAIRMAN: Gentlemen, I see a quorum and I think we are in a position to call our meeting to order. Our witness this morning is the hon. Mitchell Sharp, Minister of Finance. I believe he has some introductory remarks and therefore I will call upon Mr. Sharp at this time.

Hon. MITCHELL SHARP (*Minister of Finance*): Thank you, Mr. Chairman. I have been following very closely and with a great deal of interest the proceedings of this committee. I would like to congratulate the members for the thorough way in which they are examining this legislation. I have not been able to read all the briefs that have been submitted but I have read about some of them and talked about some of them, many of which are very thoughful and interesting presentations.

I would, of course, be prepared to proceed as the committee wishes, Mr. Chairman, but I thought, if it is agreeable to you, that you might first appreciate some remarks about certain subjects that are not covered in the bills before you but are related to banking legislation.

I have in mind, for example, the question of a definition of banking and its implications, the clearing system and the question of agencies or branches of foreign banks. Those are matters which are not covered in the legislation itself but about which there has been a good deal of discussion.

We might then, if it is satisfactory to the committee, discuss those provisions of the bill upon which you might wish to have my comments, and when doing so I am going to suggest for your consideration amendments to the bill relating to three subjects in particular.

First, a restriction on the transfer of shares of a bank to a non-resident when more than 25 per cent of the shares are then owned by one non-resident. Second, holdings by a bank of more than 10 per cent of the shares of certain Canadian corporations. I will have some amendments to suggest for your consideration in relation to that matter. Third, I would like to put before you for your consideration draft amendments relating to the disclosure of the cost of loans, including all interest and charges.

Mr. Chairman, that briefly is the procedure I would like to follow. I would like to know if this is agreeable to the committee and then I might make some comments on the first three subjects at least.

The CHAIRMAN: I would invite comment from the committee on the order of discussion suggested by the minister. It would appear to fall into an orderly category. I believe he has some comments to make on the three general topics he has mentioned, all of which are of great interest to us, and then he has these particular amendments to suggest. Mr. Lambert, do you have a suggestion?

Mr. LAMBERT: Well, I was hoping, as this is going to take the form of, shall we say, reasoned comment, that we could have copies of the minister's remarks so we can follow them and be able to question him on his actual words. I think this would help a great deal. Otherwise we are completely defeated.

Mr. SHARP: May I speak on this point, Mr. Chairman. In so far as the amendments are concerned I hope to be able to put draft amendments before you relating to certain of these matters. On the general questions that I referred to that have been raised I do not propose to place any amendments before you, and therefore I shall be placing before you the reasons for the policy that the government is following. I do not have extensive notes; I merely have a few notes to guide me in my remarks.

The CHAIRMAN: Are there any other comments on the order of discussion that is proposed by the minister?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am not quite clear, Mr. Chairman, on the order the minister is suggesting. He gave us three or four areas. I only got two of them down; the definition of banking and the clearing houses, and I think there were two others.

The CHAIRMAN: The third topic, as I understood it, was the question of agencies or branches of foreign banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Agencies or branches.

The CHAIRMAN: Yes, and then he proposed to move from there into a presentation of certain specific amendments which deal with other aspects of the legislation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But he will be dealing with these three topics first?

The CHAIRMAN: Yes.

Mr. GILBERT: Mr. Chairman, is the minister going to deal with deposit insurance?

Mr. SHARP: I would be prepared to do so if the committee wishes. It is not directly related to this bill but I am aware of the interest of the committee in this matter. I am hopeful that the legislation itself will be before the house on second reading very soon.

The CHAIRMAN: May I make a suggestion to the committee, if this will not inconvenience the minister. The question of deposit insurance is linked, in my opinion at least, in a certain way with the concept of a definition of banking and perhaps it would be convenient, if we have questions or points to make with the minister in the area of deposit insurance, to raise them when we are discussing the concept or definition of banking because I think they are interrelated in various ways.

Mr. MONTEITH: I am wondering, Mr. Chairman, as this is a separate bill might it not be better to clear up what the minister has suggested first and then consider deposit insurance?

The CHAIRMAN: Well, we could do it that way. The reason I made this suggestion, and I am certainly not attempting to be firm on it, is that if we do not have the bill as such before us the minister may feel he is not in a position to

discuss the particular clauses in a detailed way. I have certainly taken the attitude that our order of reference is wide enough to permit a very wide discussion of deposit insurance but if we—

Mr. MONTEITH: Could it not be discussed by reference?

The CHAIRMAN: I certainly feel that would be all right. My only suggestion is that we may want to do it while we are discussing the definition of banking. If the committee prefers to do it separately, I think that is equally acceptable.

Mr. MONTEITH: It seems to me they are both fairly lengthy subjects and I really think it would be better to keep them separate.

The CHAIRMAN: Is the committe in accord with keeping them separate? We could do it that way.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As long as we do not overlap on occasion.

The CHAIRMAN: I certainly think we cannot be rigid on that.

Now, Mr. Sharp, perhaps for a start you could make your comments on the topics you have mentioned, and then we can continue with our discussion.

Mr. SHARP: Mr. Chairman, both from hearing your proceedings here and from the questions that have been directed to me in the house, I understand the great interest of the committee in the question of the jurisdiction that parliament possesses by reason of its powers to legislate with respect to banking.

My first comment is one that I made in reply to a question in the House of Commons the other day, namely, that I have been advised by law officers of the Crown and other lawyers to whom I have spoken that parliament cannot define banking. This is a clause in the British North America Act and therefore parliament cannot say what the British North American Act means; that is reserved for the courts. All that parliament can do is pass legislation which purports to regulate banking and define the term for the purposes of that act.

I believe that if we are going to exercise the powers given to parliament by the British North America Act in the field of banking—going beyond the scope of present legislation—this should not be done by amendments to the Bank Act but by separate legislation. I illustrate this by reference to the problem that we are all concerned about, and that is the activities of the so-called near-banks. I do not think it takes more than a very cursory examination of the Bank Act to realize that the terms of the Bank Act as they now stand could not be applied to many of these institutions that are now carrying on what I would call near-banking operations. I believe that if we are going to extend our supervision and our laws to those institutions, we should do so by special legislation which deals with them. I would like to say to the committee, as I said in the House of Commons, that the government has not decided in the negative on this matter. In other words, the question of how far the jurisdiction of parliament extends over these institutions is still open in our minds and is under very active consideration.

I do not believe that it would be in the public interest to jeopardize the Bank Act by putting into it clauses that might be of doubtful validity in the courts. This is another reason why I would not like to see the Bank Act amended to purport to extend the jurisdiction of parliament over the near-banking

institutions. If we did that, it is just conceivable that the courts might decide that we did not have that jurisdiction and the Bank Act itself, as it is now constituted, might be in jeopardy. This is why I have said on a number of occasions that I do not want to found any legislation that deals with what is now the accepted jurisdiction of parliament upon anything that could be challenged in the courts.

So, for these two reasons I suggest to the committee that the question of extending the jurisdiction of parliament over near-banks should be considered in separate legislation and I can assure you, as far as the government is concerned, that we are examining this question.

I think those are my preliminary comments at any rate, Mr. Chairman.

The CHAIRMAN: Gentlemen, would you find it more convenient to discuss this topic now and then go on to the other two separately, or shall we have the comments on the other two now? I think we would prefer to discuss this topic first, and I recognize Mr. Lambert followed by Mr. Laflamme, Mr. Cameron, and Mr. Monteith.

Mr. LAMBERT: Mr. Chairman, the remarks which the minister has made have been made by him, of course, on previous occasions. There has been no change of view. May I say that I respectfully dissent from some of the views that he has expressed. In other sectors of government parliament has decided to define some of the powers that have been given to it or taken by it under the constitution. For instance, one which comes to mind, is the definition of broadcasting. There are many others. In any event, I must say that I also do not think that the whole of the Bank Act would be jeopardized if certain provisions therein were challenged by some organization or by some government. The burden would be upon them to prove that the jurisdiction of the government of Canada is not exclusive. In other words, they would have to assert that they have some jurisdiction, because jurisdiction cannot exist *in vacuo* and therefore the provisions in the constitution having to do with banking, currency and interest are more than ample. They are reserved exclusively for the government of Canada. They are more than ample to cover banking activities.

Now, has it not been felt that a general definition of banking and banking practices could be incorporated in the act and that anyone who wishes to participate in those activities would then have to conform?

Mr. SHARP: If I may say so, Mr. Chairman, that is precisely what the Bank Act now says. It says that chartered banks have certain powers. One may apply to parliament for a charter and if a charter is granted the Bank Act applies. A procedure is established for becoming a chartered bank under the Bank Act.

Mr. LAMBERT: But the only prohibition under the Bank Act is that you cannot use the name "bank" or "banker" and that is all. It will be very interesting to see the results of the case of Green v. Treasury Branch of Alberta when it comes to the Supreme Court of Canada, because that case proclaims that the activities of the treasury branches can be carried on because the Bank Act does not forbid it. In other words, the present Bank Act, and the act as proposed, leaves a whole area in a vacuum that anybody can move into. I do not for one moment support the view that this is right and that by default there are certain activities that are carried on outside the banking practices which are also carried on outside the purview of the Bank Act.

Mr. SHARP: I am not disagreeing with this, Mr. Lambert. The only point I would like to make to the committee is that I do not think the Bank Act should be used for the purpose of bringing these other activities under parliamentary control. I believe there should be legislation which deals with those institutions that are carrying on a form of banking business, and I am not arguing against your main premise at all.

Mr. LAMBERT: Was consideration not given to, shall we say, drafting the proposed Bank Act in two parts; one part applying to chartered commercial banking operations and the other to the regulatory provisions which deal with people who wish to engage in any one of the many banking practices?

Mr. SHARP: Yes, consideration was given to it, Mr. Chairman, but the decision was made to proceed by separate legislation, if we can find a way of proceeding. As you very well know, the legal concept is a very difficult one and not all lawyers are agreed, and not all jurisdictions are agreed, upon the definition of the business of banking.

Mr. LAMBERT: Well, may I put it to you, Mr. Minister, that is the burden of proof not upon those who assert the lack of exclusive jurisdiction on the Crown in Canada?

Mr. SHARP: It may be.

Mr. LAMBERT: And that there are many other examples where there have been provincial rights of incorporation of companies and where there are statutory requirements under the Corporations Act concerning annual returns, and so on and so forth, but that not one iota of the activities of companies such as broadcasting companies and aircraft operating companies come under provincial jurisdiction. I am sure if we went through the gambit of activities that we would find this to be true. Is there not a parallel in this cases?

Mr. SHARP: Well, I am not really having an argument with you, Mr. Lambert, on the question of the desirability of legislation of this kind; I believe that this matter needs urgent consideration. I only suggest to you that the Bank Act should not be used for this purpose.

Mr. LAMBERT: What concerns me is that by your parallel development we immediately come to deposit insurance, and in that part of the bill dealing with deposit insurance there is this phrase, "with the consent of the provincial governments", and I deny that any province has the right to control banking or banking practices. You may say well, we want three, four or five years in which to prepare and put through the appropriate ancillary legislation and that in the interval, in order to take care of a very serious situation, we are going to provide a stopgap with deposit insurance which grants by statute the right of a province to come into the field of banking and banking practices. Once the deposit insurance bill is passed in its present form the government of Canada has conceded the right of a province to come into the field of banking. I feel this is a fatal argument to the position taken by the government.

Mr. SHARP: I do not agree, Mr. Lambert. The purpose of the government in introducing deposit insurance at the present time is to make it effective as quickly as possible over as wide a range as possible, and for this purpose we felt it was highly desirable there should be no dispute with the provinces on this matter because the question again arises whether you want to have legislation

that is effective immediately or whether you want to be subject to a long court action, during which time everything is in jeopardy and in doubt. Therefore we chose what I believe is the practical and the useful thing in the public interest. I am confident indeed that deposit insurance is going to provide the very effective coverage which is so urgently needed.

Mr. LAMBERT: Well, I will not deny that deposit insurance can remedy a certain need, but are you not purchasing it at the price of agreeing that the provinces have a right to come into the field of banking?

Mr. SHARP: I believe not, Mr. Lambert.

Mr. LAMBERT: Well, I must very definitely disagree with you, Mr. Minister, because it states in the act, «with the consent of the provinces». I would hope, there have been some suggestions. I suppose you have read the suggestions of Dr. Slater and Dr. Neufeld, and there have been others. I think there are Privy Council cases which show that it is possible to arrive at a definition of banking.

Mr. SHARP: Mr. Chairman, may I just say in conclusion that Mr. Lambert and I are not really talking at cross-purposes here. I am talking about the most practical and useful step which we can take immediately and Mr. Lambert is talking about the desirability of bringing all forms of banking activity under the supervision of parliament and with that basic objective I agree.

Mr. LAMBERT: We disagree on the procedures.

The CHAIRMAN: Mr. Laflamme, do you have a question?

Mr. LAFLAMME: Mr. Minister, am I right in assuming that the purpose in having a definition of banking is to restrain other financial institutions from doing business that could be done better by banks, or is it to have those institutions become banks?

Mr. SHARP: I believe that the purpose of additional legislation to extend the jurisdiction of parliament would be to bring all legal types of banking under the rule of parliament rather than under provincial jurisdiction, because I do not think that banking can be regulated successfully by individual provinces. It is obviously of importance to all Canadians and therefore should be regulated by the federal authority. The question you have asked illustrated the difficulty of amending the Bank Act for this purpose. The Bank Act defines a particular kind of banking activity. The kinds of activities that are carried on by the near-banks are not the same; they are similar but they are not the same. You have asked whether we would then want to give all these institutions the right to be called banks. I believe that is a question that ought to be looked at very carefully before we decide. It may be possible that the present institutions could retain their present names and in which there may be some value, but in their banking activities they should, nevertheless, be under the supervision of the federal authorities.

Mr. LAFLAMME: I can not see in the argument advanced by Mr. Lambert where the effectiveness of a definition of banking would be such that it could interfere with the provincially chartered financial institutions which are doing business fully in accordance with the B.N.A. Act. Is it the wish of the government to have more banking businesses within the framework of chartered banks?

Mr. SHARP: The arm of the government in all these matters is to increase the efficiency of the banking services available to the Canadian public. The amendments to the Bank Act that you are now considering in this Committee were designed for this purpose and deposit insurance is designed for this purpose. In my view we should carefully examine the question of extending jurisdiction over forms of banking activity other than those covered by the Bank Act. As I said to Mr. Lambert, this is not an easy question. There are many doubts about the meaning of banking and, not being a lawyer, I would not attempt to define it. I know, after talking to jurists and lawyers, that there is no common consent in this matter. If one looks around, there is no country in the world that has defined the business of banking successfully. We are not talking about something that can be done overnight. There is bound to be contention and there are bound to be cases in the courts and I do not want to bring in legislation designed to meet urgent problems that might be subject to long delays in the courts.

Mr. LAFLAMME: Thank you, Mr. Minister.

The CHAIRMAN: I will now recognize Mr. Cameron. Are there others who are interested in discussing this topic with the Minister? If so, will they please signify so that I may note them while we are proceeding. I have noted you, Mr. Gilbert. Are there others at this time?

(*Translation*)

The CHAIRMAN: Mr. Clermont, would you have a series of questions on this subject?

Mr. CLERMONT: I will yield the floor to . . .

The CHAIRMAN: Oh, you are yielding to Mr. Gilbert.

(*English*)

Mr. GILBERT: Mr. Sharp, you indicated your desire for separate legislation in order to define these other financial institutions. This separate legislation would have to be based on the B. N. A. Act, is that not so?

Mr. SHARP: Yes:

Mr. GILBERT: Is it your intention in this separate legislation to embrace the operations of all near-banks?

Mr. SHARP: This is something that the courts would have to decide. What we would purport to do would be to bring under regulation the activities that we have indicated in the bill. It would be for the courts to decide whether those activities were banking. We cannot define banking. Let me give you an example. One of the common definitions that is put forward which might stand up in the courts is that banking consists of accepting deposits that are payable on notice or on demand. That is a possible definition of banking. Presumably, then, if we accept that definition, all institutions that carry on that kind of activity are subjet to this law, but it would be for the courts to decide, first of all, whether that was banking and, secondly, which of the institutions was carrying on these activities.

Mr. GILBERT: What you are really saying is that you would leave it to the courts to decide whether you have jurisdiction over these institutions?

Mr. SHARP: The courts always have to decide on the meaning of the British North America Act. It is not given to us as members of parliament, to decide that.

Mr. GILBERT: Rather than taking the initiative at this moment, you would prefer to do it by way of separate legislation?

Mr. SHARP: I would.

Mr. MONTEITH: Your question again. What was your question again, Mr. Gilbert, please? I did not hear it.

Mr. GILBERT: I said rather than the government taking the initiative at this time, they are waiting to bring down separate legislation and let the courts define the jurisdiction.

Mr. SHARP: I hope that the point is clearer than that. We cannot define the business of banking. All we can do is pass laws in relation to what we consider to be the business of banking. It is for the courts to decide whether we have exercised our jurisdiction properly.

The CHAIRMAN: Mr. Sharp, perhaps these questions may not be the easiest for you because, as you say, you are a layman in this rather esoteric field of law, but perhaps your legal advisers might help you in telling us the difference between passing a law defining banking and passing a law in which you attempt to regulate or outline certain aspects of banking. What is the difference, really? In each case you are defining something in the B. N. A. Act one way or another.

Mr. SHARP: Mr. Chairman, I will ask my legal advisers about this, but on one point they were very clear and that is that parliament cannot define a section of the British North America Act, because in doing so it would perhaps alter the meaning of our consitution, and this we cannot do.

The CHAIRMAN: Mr. Sharp, this again is something you may want to consult your advisers on, but it may be suggested that any time you put a definition section in any federal act you are attempting to define a portion of the B. N. A. Act.

Mr. SHARP: No, you are only defining the meaning of that term within that act, not within the British North America Act.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But if the act rests on the B.N.A. Act, Mr. Sharp, are you not defining the meaning of the B.N.A. Act?

Mr. SHARP: Only if the courts sustain you.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could I ask a supplementary question? Mr. Sharp, in connection with this special legislation which you speak of, would one of its purposes be to attach these institutions to the reserve system?

Mr. SHARP: This is one of the questions that would have to be examined carefully. I would think that if you were to bring these institutions under federal regulation that it might be desirable to require them to have cash reserves like banks, but whether they would be in exactly the same form is a question that I would hesitate to answer now. I say this for a very practical reason; that is, if we are going to try to improve the competitiveness, the efficiency and the safety of our banking institutions, whether it be those that are now under the Bank Act or

those who are carrying on activities otherwise, we want to proceed in such a way as to improve the standards. It might not be in the public interest over night to impose conditions upon institutions that they could not meet and that, therefore, they would have to go out of business. This is one of the reasons that I favour a gradual approach to this matter. The Committee may have noted in my remarks on the introduction of the resolution on deposit insurance that I spoke about the same problem in connection with the insurance of deposits.

The CHAIRMAN: Mr. Gilbert, have you completed your questions?

Mr. GILBERT: Mr. Chairman, you have certainly helped me complete it by your questioning. I have just one short question for Mr. Sharp. In this intended special legislation do you contemplate including trust or loan companies and finance companies—Caisse Populaire and credit unions?

Mr. SHARP: Whatever our intention might be, the question will be decided, first, by the ambit of our legislation—that is, the definition that we use for purposes of bringing in organizations under the law and, secondly, by the attitude that the courts take toward the exercise of our jurisdiction. The courts might decide that finance companies were not carrying on banking business; they might decide that trust and loan companies in so far as their intermediary business is concerned are carrying on banking but are not carrying on banking in relation to their fiduciary activities; they might decide that Caisses Populaires are banks or they might decide that they are co-operatives. These are the difficult questions that have to be settled before we can have legislation to deal adequately with these problems.

Mr. GILBERT: Mr. Chairman, those are all the questions I have.

The CHAIRMAN: I now recognize Mr. Monteith.

Mr. MONTEITH: Mr. Sharp, you said that in order for it to be effective the courts would have to make a decision, and that you wished to take a gradual approach. I am wondering if you are in a position to outline just what steps you propose to take toward eventually bringing in legislation of this kind, whether you propose to refer it to the Supreme Court of Canada or elsewhere. What is the mechanics of eventually developing separate legislation in this respect.

Mr. SHARP: Sir, we have not made any decisions yet.

Mr. MONTEITH: That is all.

The CHAIRMAN: Do you have any further questions on this particular topic? I now recognize Mr. Latulippe followed by Mr. Valade.

(*Translation*)

Mr. LATULIPPE: Mr. Minister, I should like to say all my appreciation for your intention to bring in legislation regarding chartered banks. Could you say whether the Government has the intention to keep a certain sovereignty, because presently you will admit, as all people in this room do, that in respect of; constitution and the privileges in the Bank Act, the Government has not too much sovereignty or at any rate does not use it very much. Has the Government the intention, for instance, to reduce the period of years which is now ten years, at the end of which the banks must renew their charter? Could the Government reduce this period to five years? Has the Government the intention to allow the

financing by the banks of a certain part of its activities in the field of construction or in all fields, with the exception of consumption? I think the field of production, should come under the banks and the field of consumption should be controlled by the Government, because it is precisely in the field of consumption that the present system is not fulfilling its function, and the Government could render important services if it could have nearly exclusive control in the field of consumption. In the field of production, I do not think we have anything to say, because we have all the products we need and in more than sufficient quantity, but in the field of consumption we cannot say the same thing. Would it be the intention of the Government in this new legislation or its new reorganization of banks to do something along these lines?

The CHAIRMAN: Mr. Latulippe, I will ask the Minister to try and answer your questions, your very interesting questions, in the general framework of the definition of banking because the members had agreed that we should discuss, first of all, the definition of the word "banking" or "banks". But you have brought into your interesting questions, other subjects.

Mr. LATULIPPE: They deal mostly with activities which the Government—

The CHAIRMAN: You will certainly have the opportunity of discussing these questions later today.

(*English*)

Mr. Sharp, perhaps you have some comment to make on Mr. Latulippe's question.

Mr. SHARP: Yes. Mr. Chairman, the first question raised by Mr. Latulippe was whether the Bank Act could be renewed for a term shorter than 10 years, and the answer to that, of course, is yes. But I do not recommend it. I believe that it is desirable that the general reviews of the operations of the banks should not take place too frequently; there should be at least a pattern established for a period of years. Of course it may be that because of the increasing complexity of these matters amendments to the Bank Act will be made more frequently than 10 years, but I do not believe it is necessary to have such a thorough going review of the whole legislation at intervals shorter than every 10 years.

The CHAIRMAN: There is also the question of the stamina of the members of the Finance Committee of the day.

Mr. SHARP: Yes. No Minister expects to be around twice for this procedure; perhaps other members of parliament do.

The CHAIRMAN: We have at least one on the Committee, Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I hope I can go around three times.

Mr. SHARP: On the other questions of financing of production and consumption, I suppose the main activity of the banks has to do with financing of production. However, in recent years we have seen the banks moving also into the financing of consumption, so that I would imagine that in the future the banks and the near-banks and all the other institutions that are engaged in financing will be financing all forms of activity in which loans have to be raised

and in which there should be a convenient place to make deposits or make investments on short-term.

(*Translation*)

The CHAIRMAN: Do you have any other questions regarding this definition?

Mr. LATULIPPE: In that case the Government does not intend to exert its sovereignty in consumption because when one considers all the activity in the field of banking economy one realizes that the money supply distributed through loans and through production, cannot finance the whole field of consumption; this is why we have a surplus of products and the more this goes on, the more we will have a greater surplus of products, and there will be the problem of regulating and distributing this over production which is produced for the population and which the population has need of.

(*English*)

The CHAIRMAN: Do you feel you can make any comment upon Mr. Latulippe's suggestion.

Mr. SHARP: Mr. Chairman, not really. Mr. Latulippe is raising some fundamental questions not of banking policy but of the general economic and financial policy of the government or of governments. He is making what I recognize as a traditional Social Credit approach to this question. I would be very interested to carry on the discussion, but if we are going to get through the revisions of the Bank Act I think it might be carried on elsewhere.

(*Translation*)

The CHAIRMAN: Do you have any more questions on this subject, Mr. Latulippe?

Mr. LATULIPPE: I will come back to other questions later.

The CHAIRMAN: Now, I will give the floor to Mr. Valade.

(*English*)

Mr. VALADE: Mr. Chairman, since we are on the introductory remarks by the Minister I wonder if he would care to comment on the statement made recently by the president of the Banque Canadienne Nationale, Mr. Louis Hébert. If you will allow me, I will just read the main introductory statement by Mr. Hébert—This is in French so I will just cite it in French.

(*Translation*)

The CHAIRMAN: There are difficulties in this Committee.

(*English*)

Mr. VALADE: I know that the Minister is perfectly bilingual. These remarks are in reference to the Porter Royal Commission which was established to examine and study the banking system in Canada. Mr. Hébert's remarks are as follows:

(*Translation*)

"They had reason to believe that the main recommendations of the Porter Commission which numbered, among its members, some expert economists, would be accepted by the Government. Many of them, unfortunately, were ignored in the preparation of this Bill."

(*English*)

Mr. VALADE: This is the end of the quotation. I wonder if the Minister would care to comment on this very involved matter. In fact, it is accusing the government of not being sufficiently interested in the recommendations of the Porter Commission.

Mr. SHARP: Mr. Chairman, I would suggest that the government has given greater attention to the recommendations of the Porter Commission than it has to almost any royal commission I can think of. Most royal commissions have very little effect whatsoever upon government policy.

Mr. MONTEITH: Are you speaking for the government?

Mr. SHARP: I am speaking for all governments, past and present.

The CHAIRMAN: You are making a general observation.

Mr. SHARP: I am making a general observation which relates just as much to the administration that left office in 1963 as to the government that preceded it and even the one that is now in office.

Mr. LAMBERT: We will remember that when the next commission is set-up.

Mr. SHARP: The government has adopted really quite a high proportion of the main recommendations of the Porter Commission. It has not accepted all of them and recommended them to parliament, and I think the reasons have been set out from time to time either by my predecessor in office or by myself.

The one main recommendation that the Porter Commission made that we have not acted upon was behind the question raised by Mr. Lambert and other members of the House and this Committee, namely the extension of the jurisdiction of parliament over the near-banking activities. As I have said, the government still has this under consideration; it has not rejected this recommendation. However, it has not felt it possible to proceed as yet with legislation because of the great uncertainties that exist. That is one of the reasons we decided to proceed with deposit insurance; this is a practical step that can be taken to raise the standards of deposit-taking institutions—which are most of the organizations the Porter Commission refer to when talking about near-banking activities. We believe that we can do this in a way that is well within the recognized bounds of our jurisdiction; that it will be effective immediately, and will not be challenged in the courts.

Mr. VALADE: Mr. Chairman, I do not want to quarrel with the minister because I am not an expert on banking affairs. Although the minister mentioned that only one important recommendation was not really looked into by the government or given consideration, the president of a very important banking organization has categorically said that many of these recommendations have not been considered. Of course, these recommendations refer to the interest ceiling and many other problems. Does the minister consider all the other recommendations unimportant? I am trying to find out which is in the best interests of the banking system, the opinion of the presidents of the different banks or the minister's opinion as to the importance of the recommendations of the Porter commission. It seems that the President of the Banque Canadienne Nationale does not agree with the importance of the recommendations as expressed by the minister. I do not want to quarrel with this; it may be a question of appreciation. I am sure that the people in banking would be very interested to know why

certain recommendations of the Porter commission were not implemented or considered when the bill was drawn. I would like the minister to give a more extensive answer.

Mr. Chairman, the minister made a statement to the effect that if any banking system wants to recall the definition of "banking" by the government or by parliament it can be defined by the courts. Do you think that the courts should define the authority of parliament and, if so, do you consider a superior court or the Supreme Court of Canada a suitable body to define "banking"? The Prime Minister of Quebec said not long ago, in referring to the B.N.A. Act, that the Supreme Court of Canada was not the body to judge the difficulties between provincial and federal jurisdiction. Would the minister consider the formation of a constitutional tribunal with a view to clarifying this definition so as not to contradict the spirit of the B.N.A. Act in this respect.

Mr. SHARP: Mr. Chairman, Mr. Valade has raised two questions. The first one is a question of fact. My impression is that the government has adopted a great many of the recommendations of the Porter commission on banking. I know that when I was reviewing our recommendations I had before me a summary of the recommendations of the Porter commission itself. We certainly followed the spirit of that report and adopted quite a number of the specific recommendations that were made. As I say, the one main recommendation that they made—I want to make it quite clear that I was not saying that this was the only one we did not accept—on which we have not acted has been the extension of the jurisdiction of parliament over near-banking activities and, as I said, this is still under consideration.

On your second question, I am only the Minister of Finance and I cannot speak for all the members of this parliament or even for all members of the government. The procedures for dealing with disputes or for clarifying the law are laid down in the British North America Act; as far as I am concerned, there is no other instrument available and one would have to be created by the action of the Canadian people, either through their parliament, through their legislatures or through some other body. These are all hypothetical questions. If a dispute arose as to the jurisdiction of parliament over some particular activity which was regarded as coming within the British North America Act because it related to banking, that matter would be settled in the courts. Presumably it would start at a lower court and finally reach the Supreme Court, where the final decision would be made. That is the law.

Mr. VALADE: Sir, my question relates to the difficulty of the government in not being able to define "banking". I do not know how the government can really set up a set of rules in line with the very basic premise if it cannot define the term to which it refers. We are revising the Bank Act which refers to "bank" and we cannot define this first term. I think some form of action is needed by the government whereby a definition of this term is made clear because the Bank Act is revised only every ten years, if I am not mistaken, and this means that ten years from now or until that term of ten years has expired we will be in the same predicament or dilemma of having a Bank Act in which the term "bank" is not defined and cannot be defined. I wonder if this does not involve the responsibility of the government and that a recommendation by the Minister of Finance, since he is involved in this situation, should be made to the government that something should be done. This could be presented to parliament for action.

Mr. SHARP: Mr. Chairman, may I say, in reply to Mr. Valade, that there are many clauses of the British North America Act whose meanings are uncertain. As a former minister of trade and commerce, I can assure him that the meaning of the regulation of trade and commerce is by no means clear and that attempts by parliament to exercise its authority under the trade and commerce clause were found by the then highest tribunal, the Privy Council, to be beyond the scope of parliamentary action. It was decided by the court that parliament had gone beyond its powers. So the meaning of the British North America Act emerges from court decisions or from practice. This will be so of banking. If one of the chartered banks were to challenge our right to regulate them, the question of whether we had the right of regulation would be settled in the courts. That would give us a better definition of banking presumably. Mr. Lambert has referred to a case that is before a court in Alberta and now down here, involving the Alberta treasury branches. Out of that decision is emerging a clearer idea of the jurisdiction of parliament.

Mr. VALADE: We are not in a clearer position today in parliament than we were before.

Mr. MONTEITH: I have a supplementary to my own previous question. I Mr. Minister, that you said no decision had been reached yet as to the type of procedure that is going to be followed, and so on. I think you will probably admit that there is some urgency to this matter and I am wondering if you, as minister, have any timetable as to when you might be in a position to take these further steps to come up with some subsequent legislation concerning banking.

Mr. SHARP: No, I have not yet, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In your thinking about the special legislation to which you made reference, Mr. Sharp, has the government had in mind the framing of that legislation in such a way that a reference of it by the government to the Supreme Court of Canada might result in an emergence of a definition of banking which could then later be applied to the powers under the Bank Act?

Mr. SHARP: I understood this to also be behind Mr. Monteith's question and I said that we had not made a decision.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Not made a decision.

Mr. SHARP: We have not made a decision as to how to proceed. Whether we would bring the legislation before parliament and get it into effect and await a challenge or whether we would proceed as sometimes is done by referring questions to the courts for a decision in advance, I am not certain.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You are anticipating and perhaps hoping that this legislation will be made the cause of the Supreme Court decision.

Mr. SHARP: It would be very desirable I should think for all concerned that the sooner we know the ambit of our jurisdiction the better. Whether that could be effected more quickly by having a challenge in the courts or whether it could be effected more quickly by asking the court questions, I am not certain.

(*Translation*)

Mr. LATULIPPE: I have another question.

The CHAIRMAN: Mr. Latulippe, I have allowed supplementary questions from some members but it is now Mr. Clermont's turn.

Mr. CLERMONT: I will give my turn to Mr. Latulippe, to enable him to ask a supplementary question.

Mr. LATULIPPE: I have a supplementary question deriving from what has been said. The Minister spoke of deposit insurance and he, therefore, seems to think and even has the conviction that deposit insurance is necessary and I would ask the Minister in this connection whether he intends to do away with the banks' inner reserves?

(English)

Mr. SHARP: I am sorry; I do not understand what is meant. If Mr. Latulippe is suggesting that we are going to substitute our supervision in connection with deposit insurance for the supervision that we are now exercising under the Bank Act, the answer to that question is No. The Inspector General of Banks will continue to exercise his authority under the Bank Act as he does today. The supervision under deposit insurance will be separate from that. May I say that the attitude that is being shown toward our proposal for deposit insurance is becoming much more enthusiastic than it was at the beginning, particularly by the Montreal City and District Savings Bank which now realizes how useful it would have been if deposit insurance had been in effect. There was a quite unnecessary run on the bank that would not have taken place if the depositors had known that their deposits were insured. One can never tell when some untoward event like this will take place.

(*Translation*)

The CHAIRMAN: And I now give the floor to Mr. Clermont.

Mr. LATULIPPE: I would just like to complete my questioning if Mr. Clermont will allow me.

The CHAIRMAN: Mr. Clermont will you give your turn to Mr. Latulippe.

Mr. LATULIPPE: I have one supplementary question. If banks keep reserves, and they say it is for bad debts, why should they have deposit insurance? This is also to provide for bad debts or whatever may happen in the banking business, so why have the two?

(English)

Mr. SHARP: There are two separate questions involved here. One is the insurance to relatively small depositors of the return of their deposits and the second is the general interest in having strong financial institutions which will meet all their obligations, including the larger depositors, and which will also be able to fulfil their function in the Canadian economy. These are two quite separate questions. The Inspector General of Banks has been concerned in his supervision under the Bank Act of the activities of the banking institutions not only with the safety of deposits, but also with the general conduct of the operations of the banks themselves.

(*Translation*)

The CHAIRMAN: Do you want to begin, Mr. Clermont?

Mr. CLERMONT: Mr. Chairman, will the Minister comment on the Porter recommendations concerning the definition of the word "bank" such as it appears in Chapter 18, Page 16 and Chapter 19, Page 3. The Porter Commission's definition.

(*English*)

Chapter 18, and chapter 19 gives a definition by the Porter commission regarding a bank.

Mr. SHARP: I have not found this reference; I am sorry.

Mr. CLERMONT: Mr. Minister, no doubt you have read what the Porter commission have in mind as to the definition of a bank.

Mr. SHARP: I have been reading so many definitions recently that I have forgotten what the Porter commission recommended.

Mr. CLERMONT: According to the report, "banking"

> ...should encompass all financial institutions issuing demand liabilities, transferable and short-term deposits, and other short-term banking claims...

This definition includes.

> ...all term deposits, whatever their formal name, and other claims on institutions maturing, or redeemable at a fixed price within 100 days of the time of original issue or of the time at which notice of withdrawal is given by the customer.

Mr. SHARP: Mr. Chairman, naturally I would not want to say now what form our legislation may take in the future.

I just would say this, that the kind of institutions covered by that definition will be covered by deposit insurance. Indeed, it may be necessary to define "deposits" even more widely than is suggested by the Porter commission so that, generally speaking, insurance will cover the institutions that the Porter commission has defined. Whether those are banks, or whether we will purport to bring them under the jurisdiction of Parliament under the banking clause, I cannot answer now because we have not made any decisions in this field as yet.

(*Translation*)

Mr. CLERMONT: In a reply you gave Mr. Valade, the Member for Sainte-Marie, in Montreal, concerning the Porter recommendations regarding chartered banks, you mentioned that a good portion of the recommendations were accepted. Among those that were accepted and were incorporated in Bill C-222 some are not appreciated by the banks. For instance, the 10 percent limit on any shares held in other financial institutions. The Porter Commission also recommended that there should be no charges made for cheques drawn on branches outside the area. The banks do not appreciate this. There are many other recommendations made by the Commission which were incorporated in the Bill and which the banks do not appreciate.

(*English*)

Mr. SHARP: That is right. The Porter commission intended to increase the efficiency and not the comfort of the banking system.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Sharp, you mentioned that deposit insurance, even when it goes into effect, will cover the institutions as defined by the Porter commission, but would you not agree that it will cover them only in respect to the safety of the depositors? No other form of regulation will be imposed on their operations.

Mr. SHARP: Yes; the purpose of deposit insurance legislation will be, first to give the smaller depositors an assurance that they will get their money back, and, secondly, to bring the institutions under supervision and control so that they do not fail. Those are two quite separate questions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They are two separate questions, but, of course, the control of banks goes beyond that.

Mr. SHARP: It does; and that is why I want to make it quite clear that I am not suggesting that deposit insurance is a substitute for adequate legislation in this field; but I do feel that it is the first and absolutely essential practical step.

(*Translation*)

The CHAIRMAN: Mr. Clermont.

Mr. CLERMONT: The definition of a bank, Sir...

The CHAIRMAN: Your questions are finished on this subject?

(*English*)

Are there other members who have not had an initial opportunity of questioning and who would like to participate on this subject?

Mr. VALADE: I want to raise a point of order. Mr. Sharp has made the remark which leaves an impression which I am sure he does not wish to leave. He said, in reply to a question by Mr. Clermont, that the Bank Act was not for the comfort but for the efficiency of the banks. This was in reference to the Porter commission. I am sure that the Porter commission, which was a royal commission, certainly was not set up with a view to ensuring the comfort of banks. I am sure it was not the Minister's intention to leave that inference, nor is it mine. I am sure that the recommendations of the Porter commission were directed toward the efficiency of the banking system as a whole.

Mr. SHARP: I agree.

(*Translation*)

The CHAIRMAN: Having accepted this comment from Mr. Valade, we will start our second series of questions on this item, and I shall give the floor to Mr. Lambert.

(*English*)

Mr. LAMBERT: As a result of the answers given by Mr. Sharp. I am wondering whether I have a clear picture in my mind.

Do the Minister and the government feel, with respect to the definition of "banking" and the control of near-banks, that it is to be preferred to, shall we

say, play safe? In other words, that they seek to bring in the bank bill, which has not been challenged at any time in its slightly, shall we say, modified form, and then to venture out on what is considered to be thinner ice, because they fear that if they do step out of its framework the whole bill will be called into question.

This, I must say, is a rather novel procedure. I would have thought that there was never any question that the control of the chartered banks would ever be in jeopardy even if there were a definition of "banking" which might be called into question by some other organization or provincial government. The government is hesitant in stepping out with the result that it brings in deposit insurance as a temporary palliative.

Mr. SHARP: No, it will always be necessary.

Mr. LAMBERT: Or it is the interim measure.

Mr. SHARP: I agree with that.

Mr. LAMBERT: Yes. So long as I can see the picture of what the government is thinking—

Mr. SHARP: Am I permitted to ask Mr. Lambert a question?

The CHAIRMAN: Witnesses attempt to do this quite regularly. If you want to phrase your thought as a comment, of course I think we would have to accept it.

Mr. SHARP: I will dispense with the pleasure.

Mr. DAVIS: The Minister of Finance said that deposit insurance would always be necessary, and then he agreed with Mr. Lambert's comment that it might be just an interim measure. Perhaps he would like to clarify that.

Mr. SHARP: What I meant by "interim measure" is that it is a step that does help in the supervision of these near-banking activities and therefore in that sense it is an interim step; in other words, a step toward adequate regulation of all banking activities in Canada.

Mr. DAVIS: Might it not always be the case, though, that some of these finance companies, for economic and other reasons, should have a form of insurance.

Mr. SHARP: It is my view that deposit insurance can be defended on its own merits and, indeed, I think it is regrettable that it was not introduced some years ago. I think it would have been very useful today if deposit insurance had been introduced ten years ago.

Mr. DAVIS: In that sense it could become a permanent feature.

Mr. SHARP: It is intended to be a permanent feature.

Mr. LAMBERT: Is it fair to paraphrase the statement in this way: Control by insurance, but not necessarily control?

The CHAIRMAN: That has a familiar ring.

Are there any further questions at this point on the topic of the definition of "banking"?

Mr. MACKASEY: I am a little confused. Just to sum up our discussion about courts, you are not afraid of the Supreme Court challenging your jurisdiction

over the chartered banks, but you are being cautious that nothing is included in Bill No. 222, would you hold up the whole bill.

Mr. SHARP: It is just as simple as that.

The question I was going to put to Mr. Lambert—and I will now put it as a comment so that he will not be able to reply to it—is simply that although he does not agree with the government it is the practical thing to do.

Mr. LAMBERT: It is the first time that I have known that one clause could throw out a whole bill.

Mr. SHARP: Well, it depends on the nature of the clause.

The CHAIRMAN: What Mr. Lambert is raising, I think, is the extent to which the courts will apply the doctrine of severability in the case of legislation. I think that was your point, Mr. Lambert.

Do we have further questions on this topic of the definition of "banking"?

If not, I will invite Mr. Sharp to make his preliminary comments on the topic of the clearing system.

Mr. SHARP: The Porter commission recommended that the clearing system be taken over by the Bank of Canada. At present it is operated, as the Committee knows, by the Canadian Bankers' Association. Other institutions such as a trust companies or credit unions have clearing privileges through a chartered bank on payment of an arranged fee.

It has been suggested that the legislation required to make the change, that is, to transfer the clearing from the Bankers' Association to the Bank of Canada, could also provide that only institutions that were federally-incorporated or licensed should be given clearing privileges, and that all cheques and other instruments drawn on members should be cleared at par.

The first of these suggestions, namely, that only institutions that were federally-incorporated or licensed should be given clearing privileges, would mean that provincial institutions extending chequing privileges would have to obtain federal licences and presumably submit to federal inspection and supervision if they wished to continue to accept transferable deposits.

As far as the government is concerned, we are looking at this question along with the more general question of the extension of the jurisdiction of Parliament over banking operations, and if anything is to be done in that field, for reasons the same as I have given in connection with the legislation extending to the near-banks I believe it should be the subject of separate legislation and should not be put in the Bank Act itself. It should be looked at on its merits, and I believe it should be looked at in relation to the general question of the operations of the near-banks.

On the second question I have only a comment, and that is that very large amounts of revenue are involved in the charges that are made for the cashing of cheques and that this would affect the profitability, I am told, of hundreds of branches in smaller communities throughout the country. Therefore, it would have an influence upon the service the banks performed in those smaller areas.

Those are the only general comments I would like to make at this time.

The CHAIRMAN: Perhaps the members who wish to ask questions and make comments about the clearing system would signify their intention to me. Mr. Cameron followed by Mr. Clermont.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Sharp, I was questioning a witness from the Canadian Bankers' Association the other day on this matter and I must confess that I told the witness I still was left with a question in my mind about why they wished to retain this function if they were sure that they lost money on it. Perhaps I am unduly sceptical but I find it rather difficult to believe that banks, uniquely in this world, like to lose money. Therefore, I was left with a question in my mind on why they wish to retain the function.

The question of the practicality of the Porter Commission recommendation came up, and it was pointed out, as you have now pointed out, the number of branches of clearing houses that would have to be established. Again I am left with a question in my mind on whether a lot of that is not the result of failure to develop modern communications systems within the banking system.

I would like to know if you have any opinion, sir, on why they want to retain it?

I have in mind—and perhaps I am unduly suspicious in this regard— that very many years ago, before most members of the committee were born, a bank in the city of Vancouver was put out of business by the refusal of the existing banks to accord it clearing house privileges. Eventually it was bought out at fire sale rates, I believe.

Now, I do not know if this the idea; whether the feeling is that they can control the operations of near-banks which have to rely on them for clearing house privileges. Could this be one of the reasons?

The CHAIRMAN: I think, perhaps, Mr. Sharp is going to call upon Mr. Elderkin to deal with this.

Mr. SHARP: Yes. Would you like to make some comments on this, Mr. Elderkin?

Mr. C. F. ELDERKIN (*Special Adviser*): I would not like to be dogmatic about it, Mr. Chairman, but if my recollection is correct the reason that Vancouver bank was put out of business was because they could not meet their clearing.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That was not the story I heard at the time, Mr. Elderkin. It was a different story that was current at the period.

Mr. SHARP: This is the cause of the failure of many institutions. They cannot meet their obligations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think history has been ameliorated since then.

Mr. ELDERKIN: Perhaps I can temper that by saying that the bank itself could not meet its clearing.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That might be somewhat different.

The CHAIRMAN: There is a very delicate nuance there.

Do you have any further questions?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was quite frankly puzzled to know why they were not prepared to consider the relegation of this function to the central bank, as recommended by the Porter Commission.

It does seem to me that if we are going to deal with these near-banks, many of whom now have a checking system, they should not be left completely dependent upon the chartered banks for their operations, as they are at the present time. I am not suggesting that they are overcharged, or anything of that sort, but it does leave them dependent upon these institutions.

I think it is something we should consider. If we are going to ask them to submit to some controls—and I gather that we are—then I think we should make some provision that would enable them to be sure always of their clearing house privileges.

Mr. ELDERKIN: I think, Mr. Cameron, this would also involve their having cash clearing reserves with the central bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would think so, too.

Mr. ELDERKIN: Which is really what they are doing today. They have cash clearing balances with the bank which is taking care of their accounts.

Mr. MONTEITH: May I ask a supplementary of Mr. Elderkin? In these clearing houses, does the bank that is handling it in a certain town or city actually maintain clearing balances from all other banks?

Mr. ELDERKIN: I am not quite sure I understand your question, Mr. Monteith. If you mean as between banks; but not between banks and so-called near-banks or trust companies; there is quite a difference. These clearing balances would not be carried necessarily in that town; they might be carried at head office.

Mr. MONTEITH: Are there clearing balances carried from the near-banks?

Mr. ELDERKIN: Yes.

(*Translation*)

The CHAIRMAN: Now, I recognize Mr. Clermont.

Mr. CLERMONT: Mr. Minister, is there a possibility that due to the clearing system, Trust companies and other companies having a federal charter might not agree as a result of the amendment to the Act which establishes the Canadian Bankers Association?

(*English*)

The CHAIRMAN: This is the basis for the present clearing system, I gather.

Mr. CLERMONT: Yes.

Mr. SHARP: Could you clarify your question, please?

Mr. CLERMONT: As it is now, according to the Canadian Bankers' Association by-law, only banks can be members of the clearing house. Is that right or wrong, Mr. Sharp?

Mr. SHARP: That is right.

Mr. CLERMONT: Can this by-law be amended to allow trust companies, or other federally-chartered corporations, to belong to the clearing house facility?

Mr. SHARP: Perhaps I could put it this way: They Canadian Bankers' Association can lay down the rules for the operation of the clearing and they could give access to the clearing to whomever they wish.

Mr. CLERMONT: I think if I remember correctly that by-law says that only banks can be members of the clearing houses.

Mr. ELDERKIN: It is only banks, Mr. Clermont, that can be members of the Canadian Bankers' Association, but the clearing house rules come under separate by-laws. Presumably they do not have to be members of the Canadian Bankers' Association to become members of the clearing house if they saw fit to do so.

Mr. SHARP: Mr. Chairman, I gather what Mr. Clermont is suggesting is that legislation might be passed which required the bankers' association to allow cheques of near-banks, or non-chartered banks, to be cleared. Now, that is a separate question, and I would have thought, under those circumstances, that it would be wiser to move towards the recommendations of the Porter Commission and to take the clearing away from the bankers' association and put it in the hands of the Bank of Canada.

Mr. CLERMONT: A similar question was put to the Governor of the Bank of Canada on that subject and he claimed that it would not be an easy matter for the Bank of Canada because unless their facilities were very, very much enlarged they would not be able to do so.

Mr. SHARP: It would reduce the profits of the Bank of Canada. I was going to say it would add to the expenses of the government.

Mr. CLERMONT: Another recommendation that the Porter Commission made on clearing houses was that the banks should be paid for all cheques cashed for the government of Canada.

Mr. SHARP: Did the banks suggest that we should pay?

Mr. CLERMONT: No; not the banks, but the Porter Commission.

Mr. SHARP: It suggested that we should?

Mr. CLERMONT: That the banks should receive some compensation for all government cheques which are cashed.

Mr. SHARP: As Minister of Finance, I do not agree. I think that the balance of advantage and disadvantage in our accounts with the chartered banks is such that the banks do not lose any money in dealing with the federal government.

Mr. CLERMONT: The Porter Commission took that into consideration also, but their recommendation was that the banks should receive compensation. However, your answer as Minister of Finance is No.

Mr. SHARP: No; I was just going to say to Mr. Valade that this is perhaps one of the reasons why the president of that bank felt that we had not carried out all the recommendations of the Porter Commission and had some complaints. I have to admit that this is one of the recommendations that we did not accept, because it is our judgment that in our relations with the chartered banks we are not requiring the banks to do work for the government and people of Canada without adequate compensation.

(*Translation*)

The CHAIRMAN: Have you finished your questions, Mr. Clermont?

Mr. CLERMONT: Yes.

The CHAIRMAN: I now recognize Mr. Laflamme.

(*English*)

Mr. LAFLAMME: I have only one question regarding this clearing house system. One of the first purposes of trying to have a definition of "banking" is to bring more financial institutions within the framework of the banking system. I think that if we allow the other financial institutions to take advantage of the facilities of the clearing system we are working in a completely different way from the first point which is to seek to have the other institutions as part of the framework of the banking system.

Mr. SHARP: I am inclined to agree with this remark. I believe that if we are going to give these institutions access to the clearing system it ought to be because we are satisfied that they are institutions which are carrying on the business of banking under adequate rules.

I quite agree with the comment.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They do keep banks together, do they not?

Mr. SHARP: To some extent they do.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not want to suggest that they should not band together.

Mr. LAMBERT: In that regard, Mr. Chairman, I suppose I agree that if they come in under the umbrella of banking then they would come into a clearing system. It might add a little bit to the administration of the clearing system but I have never heard any administrative objection to the admission of near-banks into the clearing system. Therefore, if you are going to bring them in under the Bank Act by the definition of "banking" and your control of them, I cannot see that you should then keep them out of the clearing system.

The CHAIRMAN: Do we have any further questions at this time on the clearing system?

I wonder if I might draw to the attention of the Committee an interesting clarification that was suggested by the minister's introductory comments on this topic? One member stated that the banks said that they lose money on their operation of the clearing system. At the same time, however, one reason given by the Minister for the Bank of Canada not operating the system is that there is a valuable revenue derived by many chartered bank branches, which they would lose to the Bank of Canada.

Mr. SHARP: Yes; but this is a question of clearing at par.

The CHAIRMAN: It is a question of clearing at par?

Mr. SHARP: Yes.

The CHAIRMAN: I wonder also, Mr. Sharp, if you have developed any views on what is another aspect.

Many members of the Committee questioned the bankers' association on numerous occasions about why the near-banks which have to use clearing facilities are not able to take part, day-to-day, or month-to-month, in the administration of the system. They apparently have no voice and they have some difficulty getting information on the cost factors of its operation. It would appear that the information comes out only when the bankers come before this Committee at rather irregular intervals.

Do you have any views on why it would appear that these other institutions are linked to the system at present only on sufferance rather than by having some voice in its operation, even under the present set up?

Mr. SHARP: Well, I hesitate to comment on what is obviously an internal matter for the banks in relation to their customers, but, the near-banks are in the clearing only in association with various chartered banks. They consider this a very valuable access, of course, otherwise it would be very difficult for them to carry on.

The question really is. Do the banks consider them valuable enough customers to give them more information than they are now getting? I would think that this is a matter which would not really be appropriate for me to comment on. If we are going to establish a clearing system to which not only banks but other institutions are going to have access then I have an interest, or the government has an interest, but in this clearing association which is run by the Canadian Bankers' Association the rules must necessarily be made by them unless the public interest is being jeopardized in some way. That may be the case, but I have not yet heard any evidence that has moved me to suggest action.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary question on this?

Mr. Sharp, you referred to the banks' relations with their customers. Although it is true that some of these institutions can, on occasion, be classified as customers of the banks their main function is that of competitors to the banks. Does that not alter your position?

Mr. SHARP: I am sure that the banks sometimes cannot quite make up their minds whether they are investments, whether they are customers, or whether they are competitors. One of the purposes of the legislation that we are considering here today is to try to clarify these things and to separate these functions so that the other deposit-taking institutions are clearly in the category of competitors working at arms' length.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, in light, Mr. Sharp, of your repeated statements, in the House and elsewhere, that you are in favour of competition within the banking system, are you not concerned about the position in which you leave many of the competitors of the banks—because they are competitive in many functions—with regard to clearing houses?

Mr. SHARP: Yes; and that is why I said in my opening remarks that this question of the clearing should be considered in relation to the larger question of the extension of Parliament's jurisdiction over the near-banks.

The CHAIRMAN: But in the short run, while this is being worked out, do you see anything really objectionable in the near-banks; because they are competing with the banks and using the facilities of the clearing system only because they have to, being able to engage in regular consultation with their banking competitors in relation to the clearing system?

Mr. SHARP: May I offer a little advice here to the banks?

The CHAIRMAN: Yes.

Mr. SHARP: I think they ought to be more forthcoming and give the near-banks access to all reasonable amounts of information. I think it is very much in

their interest. It is going to prevent the sorts of comments and questioning that have gone on here in the Committee.

Mr. LAMBERT: But, Mr. Chairman, might it not be reasonable to ask the Minister whether other valuable customers of the banks might not ask for the same privilege?

Mr. MONTEITH: You mean large borrowers?

Mr. SHARP: I have heard that access to the clearing by certain large institutions in the United States has been a very useful means of helping to finance their operations there. I do not think that it is a pattern we would want to copy in this country.

Mr. LAMBERT: The main complaint of many of those who are not associated members of the clearing house—although they get that status, I suppose—has been that they would like to have a say in the formulation of the rules and regulations. I am just wondering whether a case might not be made for a major corporation that carries on very extensive use of the banking system. Such a corporation might say: "Well these rules affect us a great deal, and we would like to get in on the making of these rules, too". Where does this stop?

Mr. SHARP: Well, I hope that the bankers listen to your comments.

The CHAIRMAN: Are there any further questions or comments on the topic of the clearing system?

If not, I wish to inform the Committee that the next topic is that of agencies and branches, which is one of major interest and concern. It is now approximately nine minutes to one o'clock. Do we want Mr. Sharp to begin, and then continue after 3.45, or should we recess and begin afresh later in the afternoon? The concensus seems to be for a recess now.

We will recess until 3.45 p.m.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I think we can resume our meeting. When we recessed this morning, I believe the Minister was about to make some comments on the topic of the operation of branches and agencies.

Mr. CLERMONT: Would it be possible for me to ask Mr. Elderkin a question so that I may correct an impression I obtained this morning from a reply regarding the clearing house?

The CHAIRMAN: Yes, Mr. Clermont.

Mr. CLERMONT: Did I understand, Mr. Elderkin, that under existing regulations the bank can allow other firms to become members of the clearing houses.

Mr. ELDERKIN: What I said this morning, Mr. Clermont, was that the Canadian Bankers Association Act states that only chartered banks may be members of the association. There is a clearing house bylaw under the Act and they can make their rules subject to approval by Treasury Board at the present time. I think that, at least, the implied, if not the actual legal point in this is that only the members of the Canadian Bankers Association may be full members of the clearing. I think that it would require a change in legislation of their Act.

Mr. CLERMONT: As I understand Article 7 of the Canadian Bankers Association, an amendment to this will be required.

Mr. ELDERKIN: I am under the impression it will too.

Mr. CLERMONT: Thank you, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Clermont. Mr. Sharp, I believe you have some introductory comments on the topic of agencies and branches.

Mr. SHARP: Mr. Chairman, the Committee will recall that on second reading of the bill that is now before us I asked the Committee to consider the question of providing for the establishment of agencies of foreign banks in Canada, and at that time I set forth briefly the considerations for and against. The Governor of the Bank, I am given to understand, did likewise when he appeared before this Committee, and the representatives of the chartered banks expressed their views at some length, yesterday or the day before, when they appeared before the Committee.

On balance, I am inclined to the view that it would be in Canada's interest to permit the establishment of agencies—not branches but agencies—in Canada under certain conditions. However, I am inclined to think that it would be advisable before taking a decision on this very important question to have some further study of the implications; and I also think that it would be desirable to wait a few months until there has been time for reflection upon the issues raised in connection with the Mercantile Bank both in Canada and outside of Canada.

In the meantime, the government itself will be continuing its study of the idea and of the conditions under which agencies might operate in Canada—and these would have to be very carefully defined—and it would welcome any comments that the Committee may decide to make in its recommendations.

The CHAIRMAN: Thank you, Mr. Sharp. I gather you are through with your introductory comments; that being the case I shall recognize the members of the Committee in the usual way, and I will recognize Mr. Monteith, followed by Mr. Cameron.

Mr. MONTEITH: I just want some clarification at the moment, Mr. Chairman. Mr. Sharp, did you mean that the present bill will stand as is without any amendment, but that you intend after some time to institute studies by the department or by a group other than this Committee itself, which may make recommendations? At any rate, you do not intend to suggest implementing any of the recommendations that may come from this group in this bill.

Mr. SHARP: Yes, Mr. Chairman, what Mr. Monteith has said is correct. We do not intend to make recommendations for amendments that would permit the operation of agencies in Canada. I would like to correct one impression, however, and that is that we have not done any work on the subject. We have; we have done a good deal of work in the department and in the Bank of Canada on the implications of this proposal. However, it has appeared to us, even after this fairly extensive work, that we will have to do some more before we will be in a position to place before Parliament the recommendations that would be based upon a thorough understanding both of the operation of foreign agencies abroad and the possible operation of them in Canada.

Mr. MONTEITH: If I am not mistaken, Mr. Chairman, the Bankers Association suggested a further study of this situation as well as advocated agencies.

Mr. Sharp, who is undertaking this study now? Is it the department or a committee of officials?

Mr. SHARP: The department; the Inspector General's branch, if that is part of the department—I always look upon it as such—and the Bank of Canada.

Mr. MONTEITH: Thank you.

The CHAIRMAN: I will now recognize Mr. Cameron followed by Mr. Clermont and Mr. Lambert.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This morning, Mr. Sharp, in setting out the things that you intended to deal with, you included branches; you said agencies and branches, and now I gather that you are eliminating branches.

Mr. SHARP: I would not be prepared to recommend the establishment of branches, but I am prepared to consider sympathetically the question of the establishment of agencies.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, you made a speech in that connection in the House and I must confess I do not recall what it was you said—I should have looked it up. Would it be possible for you to give us very briefly some of the pros and cons on the agencies, or would you rather not do that now.

Mr. SHARP: Well, I have done it in the House and I can do it here but Mr. Rasminsky has set out the considerations much more expertly than I could since he has to operate on the day to day market and the day to day implementation of monetary policy, and I find myself in general agreement with what Mr. Rasminsky has said.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As I understand it, the Canadian banks which have agencies in the United States are confined to the particular state that has granted tham a license. Would your idea be that in giving reciprocal arrangements for American banks that they would be confined to one area or would they be, as our Canadian banks are, free to set up branch agencies across the country?

Mr. SHARP: I cannot answer the question as to how many offices they might be free to establish if, in fact, Parliament authorized them to operate in Canada. I will only say that there would have to be a limit.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you also limit them, with regard to the time—that is to a 12-month license, as one of the Bank representatives the day before yesterday suggested?

Mr. SHARP: Yes, I think that it would be desirable to have relatively short licenses; probably a year is appropriate. It seems to work fairly well in New York State. I think similar provisions would be suitable in Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you. That is all I have.

(*Translation*)

The CHAIRMAN: Now, I recognize Mr. Clermont, followed by Mr. Lambert.

Mr. CLERMONT: You stated that the number of these agencies would be limited. Would this be based on the system in force in the State of New York, where agencies, should the Act be adopted, would not be able to take in deposits?

(*English*)

Mr. SHARP: Yes. This is the essential difference between an agency and a branch. A branch is really an extension of the general banking activities of the parent company in a foreign country, presumably with broadly the same rights of taking deposits and making loans. An agency, at least in the way in which it operates in the United States and the way in which I contemplate it operating in Canada, would not be privileged to take deposits from Canadians.

(*Translation*)

Mr. CLERMONT: But would it be under the supervision of the Inspector General of Banks?

(*English*)

Mr. SHARP: That, I think, would be a suitable arrangement.

Mr. LAMBERT: Mr. Minister, in the light of the proposed amendment, why the complete ban on foreign ownership of banking interests not now owned by foreigners and operating in Canada—excluding the present Canadian chartered banks and leaving aside the Mercantile which I think is a different case. Do you not feel that this has long-range implications with regard to the development and the evolution of money markets here in Canada?

Mr. SHARP: I wish you would rephrase the question, Mr. Lambert. I got a little lost. It may be my inattention.

Mr. LAMBERT: Leaving aside the case of the chartered banks in Canada, and the Mercantile bank which is a particular matter, do you not feel that the proposed exclusion of foreign ownership of chartered banks in Canada would operate to the long-range detriment of the development of a money market in Canada?

Mr. SHARP: No, Mr. Chairman, I do not. Agencies operating in Canada, as the agencies of Canadian banks operate in the United States, would enable foreign banks that wanted to have such agencies to operate in the foreign exchange market. They would not have the privilege of engaging in banking business based upon the gathering of deposits in Canada, but they would be able to operate in other transactions, in foreign currencies and so forth, which is of the essence of foreign exchange operations. The Canadian banks indeed are so expert in the foreign exchange market, I am told, that they provide a great deal of the competition in New York through agencies and I would think that this is one of the reasons that on balance I am inclined to believe that the importation of agencies into Canada might be in our interests. Certainly I am prepared to look at it from that point of view.

Mr. LAMBERT: But the present bill does not provide for this, and the government is asking us to pass the bill as it now stands.

Mr. SHARP: Yes. I feel that our money market in Canada is not at the present time impeded by the absence of foreign-owned banks in Canada. When we are talking about agencies we are talking about the development of a foreign

exchange market essentilaly. That market can be improved and developed. I do not think that a delay in the establishment of agencies or even a decision not to establish agencies would be a vital factor in the development of that market.

Mr. LAMBERT: Do you feel that the Canadian banks owned by Canadians at the present time must be protected from foreign banks coming into Canada?

Mr. SHARP: My attitude towards this matter is not dictated by such considerations. The principle underlying the Bank Act is to prevent the domination of any of our banks by anyone, whether it is a Canadian or a foreigner. It is not based upon an essentially anti-foreign attitude.

Mr. LAMBERT: There is a considerable change being effected here and so far I have failed to hear the reasons the government wants to make these changes and why it would be an advantage to have the changes. What is wrong with the present situation?

Mr. SHARP: Do you want me to repeat the speeches I have made on the resolution and on second reading in defence of the principle of the Bank Act? I would be glad to do so.

Mr. LAMBERT: No, but with the greatest respect, Mr. Minister, they were delightfully vague. Right now I am asking for concrete reasons because it is the government that is making the changes and I maintain that the government must have reasons for feeling that the changes will be for the better and not merely changes for the sake of change, that they are going to correct something that is wrong.

Mr. SHARP: Until the National City Bank bought the Mercantile the situation was essentially that we have a group of big banks whose ownership was distributed throughout the community. Our studies show that there are no dominating shareholders in any of the banks outside of Mercantile. Although it is true that Mercantile was owned in the Netherlands, it was a minor factor in the situation. I am inclined to think that we would have acted in exactly the same way in respect of this bill even if Mercantile had remained in the hands of its former owners. That is a hypothetical question. No one will ever know the answer to that because in fact before we brought the legislation down the bank had changed hands. I believe, and I still do, that a banking system in which banks are independent and competitive is in the best interests of Canada, and this is the philosophy that underlines the bill in all its parts. It is what lies behind the provisions for separating the ownership of banks and other deposit-taking institutions and behind limiting the investments of banks in other activities. This is all part of an approach that I think is very much in Canada's interest, namely, to have our banks independent both of the influence of any dominant shareholders and also independent in its relationships with its competitors and its customers.

Mr. LAMBERT: Yes, but on the other hand, as the bill now stands, I would put it to you that it imposes a freeze upon the entry of anyone into the banking system from outside of Canada, and just to preserve its status quo.

Mr. SHARP: About to the same extent as it does upon Canadians. The rule is the same for Canadians as for foreigners, that no one or related group of shareholders is to dominate any of our banks, whether he is a Canadian or whether he is a foreigner.

Mr. LAMBERT: With the exception of being permitted a ten year period.

Mr. SHARP: That is right.

Mr. LAMBERT: And would it be permissible for the Mercantile Bank or any bank that was caught by this to expect to have up to ten years to, shall we say, to dispose of its excess interests in order to avoid a fire sale?

Mr. SHARP: I would like to have that question made a little more specific. What are you talking about when you mention time, and for what purpose?

Mr. LAMBERT: For instance, would the present owners of the Mercantile, who are caught in the mesh of these provisions, look forward to say, a period of ten years in order to liquidate their excess holdings?

Mr. SHARP: Well in a sense you could say that the Mercantile Bank has unlimited time to stay where they are; in other words, as long as they do not exceed the limitations in the act, they can remain the sole holders of that Bank forever although I hope that they will have reasons to take a more progressive view. But in so far as the present act is concerned, the Mercantile Bank can remain at its present size, a wholly owned subsidiary of the National City Bank forever.

Mr. LAMBERT: Talk about the devil and the deep blue sea! You give them no choice at all.

Mr. MACKASEY: Mr. Lambert, could I ask a short supplementary question?

Mr. LAMBERT: Yes.

Mr. MACKASEY: Is it not true, sir, that they will not be able to remain in their present position once the act is enacted; they will be expected to return to a 20 to 1 ratio.

Mr. SHARP: Yes, that would have to be done. Their position at the present time, of course, is that if they wanted to return certain of their accounts to their head office they could stay within the 20 to 1 ratio indefinitely. May I make it quite clear on this point that I think that this is not desirable. I believe it would be better to have a healthy growing institution with the Canadians in control than it would be to have a continuation of this limited operation.

Mr. MACKASEY: Mr. Chairman, I will return the floor to Mr. Lambert but this is an avenue I would like to explore when I have an opportunity.

The CHAIRMAN: I have noted your name, on my list following Mr. Laflamme, who follows Mr. Lambert.

Mr. DAVIS: May I ask a supplementary?

Mr. LAMBERT: May I continue? I will be finished on this shortly. This is an effort to "Canadianize" a foreign-owned bank. I am wondering why the same consideration was not shown to it as was shown to *Time* Magazine and *Reader's Digest,* which were Canadianized. They were entirely foreign-owned and have had a far greater impact on the Canadian way of life and the Canadian economy.

Mr. SHARP: Mr. Chairman, it is perfectly possible—whether it is feasible is another question—for the National City Bank to dispose of 75 per cent of its shares in the Mercantile Bank and be free of the restriction under section 75 (2) (g). It can do that at any time. I think that anyone who looks at the situation

realistically, however, has to agree with the owners of the Mercantile Bank that it might be very difficult for them to dispose of the shares as they would wish and to have them widely distributed in the hands of a great many Canadian shareholders. At the present time, as you probably know, they took over a bank that was in very serious condition and it was not earning any profits. I understand that the Mercantile Bank is now getting its house in order clearing up its doubtful accounts and the owners are a bit reluctant about offering shares until they are satisfied that they have a good product to merchandise.

Mr. LAMBERT: So that in the interval there is a complete halter and check-rein on the further development into a healthy viable unit of the Mercantile Bank.

Mr. SHARP: May I say, Mr. Chairman, that when the National City Bank representatives appeared before this Committee they showed no disposition whatever to respond favourably to the suggestions that were made in this Committee that they might, with profit, dispose of a portion of their shares to Canadians. To those questions, although I was not here, I understand the answer was No. It may be, and I have some reason to think so, that the attitude is changing. However, I am not in a position to say anything more than that. But the information that has come to me within the last—

Mr. DAVIS: How long would it be?

Mr. SHARP: It is since the time that I gave the answer in the House of Commons.

Mr. MACKASEY: It is long enough.

Mr. LAMBERT: Do you honestly believe that a responsible official of National City Bank who was sitting where you are now could give a categorical offer of: "Yes, we will dispose of our shares." just from a question out of the blue at this Committee?

Mr. SHARP: I doubt very much whether the question took them by surprise.

Mr. LAMBERT: Oh, but certainly this is not the place to make that sort of an answer, after consideration.

Mr. SHARP: May I say that I made the same suggestion to the National City Bank a very long time ago, and I am sure quite a number of people did too; that is the reason I say that when they appeared here they were not being asked the question for the first time. They had given some consideration to it, presumably.

Mr. LAMBERT: Is it felt that the Canadian banks need protection from foreign-controlled interests?

Mr. SHARP: I think the Canadian banks are going to be institutions which are more independent and competitive if they do not have a dominating shareholder. It is remarkable that the National City Bank itself is so widely held, and I think it is a fact of which they are fairly proud. The National City Bank has been a notably successful bank. I believe some of our chartered banks have been very successful and they have had exactly the same sort of widespread ownership. It is a principle that, in application, has given fairly good results.

Mr. LAMBERT: In the long run.

The CHAIRMAN: I would ask Mr. Lambert if he would yield to Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): While the National City Bank's shareholding may be very widespread, I am sure that you would agree, however, that the National City Bank is firmly in control of the Rockefeller interests.

Mr. SHARP: I cannot answer that one way or another. I do not know.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Rockefeller is sitting on top of the pile.

Mr. MONTEITH: I have a vague recollection that the largest shareholder, as announced by Mr. Rockefeller, only controls a very infinitesimal part of the stock.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think Mr. Rockefeller is always at the top of the pile.

Mr. LAMBERT: I am not so much interested in the situation with Mercantile as in the general principle. I feel that a general application may have been made to deal with a certain situation. I am concerned at its appearance and that it is a continuation of a certain attitude of mind that prevailed at a certain time.

In view of the fact that the banks themselves had no objection to the operation of the Mercantile, or of any other bank in similar circumstances, and of conditions which may be deemed to prevail, or are expected to prevail, in other countries—because the United States is not the only one who is sort of looking at reciprocity; our Canadian banks have very extensive foreign operations—I am wondering why we are courting this negative nationalism attitude of imposing restrictions?

Mr. SHARP: I do not accept that as the direction of this bill. It is not directed against foreigners. It is directed against the domination of any of our banking institutions by anyone, Canadian or foreign. That is the underlying principle.

Indeed, as I have pointed out already—not in this Committee, but elsewhere—the general rule for the ownership of shares in our banks is a 10-per-cent rule. In the case of the Mercantile they were a wholly-owned subsidiary, and the bill, as it is now before you, requires them to reduce the holdings to 25 per cent before they are free of this restraint.

It is not justifiable to say, or to draw the inference, that this bi'l is directed against foreign domination, as such. It is directed against domination.

Mr. LAMBERT: Mr. Sharp, there are implications in the limitation of foreign domination. I am wondering what your views are about other countries in which Canadian banks operate wholly-owned subsidiaries, or have very extensive holdings in operating subsidiaries. Are they being sort of exposed over a sawhorse as a result of this?

Mr. SHARP: I am not certain about the philosophies that underlie the legislation of other countries.

In the United States there can be no philosophy underlying their banking legislation because it is such a hodge-podge of state laws and federal laws. There is no consistent philosophy underlying the banking laws of the United States.

I know the general philosophy that underlies the banking structure of Britain. I am not quite sure that it is the laws that matter so much there.

I know the general philosophy that animates France.

I think it is the right attitude for Canada, in the light of our experience, to ensure that no one dominates our chartered banks, and that the ownership is widely spread. I believe that if any interests, whether Canadian or foreign, were to dominate the operations of our main banking institutions it would be detrimental to the interests of Canadians and of Canadian industry.

Mr. LAMBERT: That is the point of view that you express but I must say that I have very great reservations about the results on our international development of this particular action.

Mr. MONTEITH: Mr. Chairman, may I just ask a supplementary?

If Canadian banks are limited to 10 per cent ownership in any one set of hands, and this American bank is allowed to expand in a fashion similar to the Canadian banks but is going to be allowed 25 per cent, might one not say that you are discriminating against Canadian banks?

Mr. SHARP: Certainly, if there is any discrimination in this law it discriminates in favour of the National City Bank, who did purchase this bank outright and had 100 per cent ownership of it. The law reflects that fact. It does not require the First National City Bank, which bought this bank, to reduce its ownership in accordance with the 10-per-cent rule that applies in the case of other banks.

Perhaps I ought to add, however, to be perfectly accurate, that the present bill does not require a shareholder who has more than 10 per cent of any of our other banks to reduce his holdings to 10 per cent. All it stipulates is that no one shall accumulate more than 10 per cent. Therefore, to some extent, there is a parallel between the situation in which we are requiring, if this bank wants to expand in Canada, that the owners must reduce their holdings to 25 per cent in Mercantile, and the situation of a shareholder in a chartered bank who does happen to own more than 10 per cent—and we know of one who does, although it is not much more than 10 per cent.

The CHAIRMAN: Before recognizing Mr. Laflamme I wonder if Mr. Elderkin could confirm my reading of section 75(2)(g) that the limitation on growth applies equally to the situation where a non-resident owns more than 25 per cent of the issued shares of the bank and to the situation where a resident owns 25 per cent of the issued shares?

Mr. ELDERKIN: As in the case of the Bank of Western Canada at the present time.

The CHAIRMAN: In other words, I am correct in suggesting that it applies not only to non-residents?

Mr. ELDERKIN: That is right.

Mr. LAFLAMME: I have only a few questions, Mr. Sharp. First of all, I would like to know if there have been any requests in the past for the establishment of foreign agencies in Canada?

Mr. SHARP: Since I have been Minister I have had no such applications.

Mr. LAFLAMME: Do you envisage the setting up of a special bill to establish the rules under which foreign agencies could establish themselves here?

Mr. SHARP: Yes, Mr. Chairman. If we do decide to recommend to the government the establishment of agencies a bill would be brought in for this purpose.

Mr. LAFLAMME: Thank you.

The CHAIRMAN: I now recognize Mr. Latulippe.

(*Translation*)

Mr. LATULIPPE: A supplementary question, Mr. Chairman.

The CHAIRMAN: Yes, Mr. Latulippe.

Mr. LATULIPPE: I would like to ask the Minister what difference there is between allowing a foreign bank to carry on its transactions in Canada or invest certain capital and other American institutions who come and buy flourishing businesses in Canada and buy up a 100 per cent of their shares. For instance the American Shell Oil who bought the Canadian Oil; what difference is there between these two situations?

(*English*)

Mr. SHARP: Mr. Chairman, the difference is that banks finance all forms of industry. They are engaged in the financing of industry in general and of consumers in general. Therefore, the effect upon the general competitive position, or upon the independents of our financial institutions, is very much greater in the case of a bank that is dominated by a single shareholder than in the case of a particular industry so dominated. A factory which is entirely foreign-owned is doing a particular kind of business. It is manufacturing and selling goods of a particular kind. A bank, on the other hand, is dealing with industry in general and is dealing with other financial institutions; therefore, a dominating influence in a bank would have a pervasive effect. One that has been mentioned many times, and which I think is very real, is that if it happened that the dominating influence was a foreign bank, particularly one located in the United States, it might, in order to obtain or retain its parent's business, give special attention to the financing of the subsidiaries of that parent in Canada.

That is only one illustration, but it is one that is very important in Canada because of the widespread ownership of our industry by Americans.

The CHAIRMAN: I now recognize Mr. Mackasey.

Mr. MACKASEY: Mr. Sharp, I may ask you to repeat a few of your answers just for my own information and to establish a background.

You did express the opinion a few moments ago that you thought the present act would be drawn up in precisely the same way regardless of whether the Mercantile was Dutch controlled or American controlled.

Mr. SHARP: Yes.

Mr. MACKASEY: In other words, what you are saying is that this bill was not intended to be anti-American in principle.

Mr. SHARP: No, it was not.

Mr. MACKASEY: Nevertheless the problem of Mercantile at the time this bank bill was being drafted was significantly different after the Americans bought it from when the Dutch owned it, for the reason that you have just outlined, I believe, to Mr. Latulippe.

Mr. SHARP: That is correct.

Mr. MACKASEY: That is, the high percentage of American ownership in particular industries such as the petroleum industry.

Mr. Lambert said something which has significance to me and that is the matter of fire sales. I would like to investigate with you, if I may, the avenues open to the Mercantile at the present moment. You have said that all they have to do to be considered as a Canadian chartered bank is to comply with 75 (2) (g), is that correct?

Mr. SHARP: That is correct; to be free of that restriction.

Mr. MACKASEY: They are a Canadian chartered bank, as it is, but they would have to do that to be free of the normal impediments which are restrictive of their growth.

Based on the presumption, which I know is a correct one, that the philosophy behind the bill is not anti-American, but pro-Canadian, perhaps, it seems to me that the Mercantile Bank is in a rather precarious position in that they have ignored advice and proceeded to buy a bank, and because of new provisions, intentionally or unintentionally, they are in a very peculiar position that they can remedy only by disposing of a large number of shares.

This leads me to Mr. Lambert's expression "fire sale". Is it ont a fact that if the Mercantile were to offer these shares tomorrow, the fact that it could take a considerable length of time to make an acceptable disposition of the stock, would mean it would be speculative, rather than be an investment, for Canadians to buy the share in the interval?

Mr. SHARP: That is a very difficult question to answer. The market for Mercantile shares in Canada really depends upon the future of the bank rather than upon its present position. If one were buying the shares of Mercantile Bank one would look at the prospects. One would say, "How long is Mercantile going to be subject to that restriction in the Bank Act which limits their growth and their profits?" If it were going to be subject to that limitation then there are probably better things in which to invest one's money.

Mr. MACKASEY: You have made my point, Mr. Sharp. In other words, the desirability of investing in these shares, if Mercantile sincerely tried to put them into the hands of Canadians, would depend on what future is envisaged for the Mercantile Bank.

Since the bill was not intended to be anti-American, would it not have been in the best interests of Canadians who may be prospective buyers of these shares to make the future of the Mercantile Bank a viable one without, at the same time, leaving any loopholes which would be a threat to the other Canadian banks?

Mr. SHARP: I said on television the other night, Mr. Chairman, in reply to a rather similar question, that I would like to see more competition in the Canadian banking system, and, therefore, I would welcome the competition that

could be provided by another competent, aggressive, well-run bank. Therefore, I hoped that the owners of the Mercantile Bank would decide to sell a sufficient participation in their bank that they would then be free to compete with the other banks on a free and open basis.

Mr. MACKASEY: Mr. Sharp, feel free to interrupt me at any point. My knowledge of banking, as is obvious from my questions, is very limited.

Presuming the shares went on the market tomorrow to Canadians and there was a sincere effort by Mercantile to come down to the percentage we are talking about, but without any assurance that its banking operations would not be considerably limited by the application of this bill in the interval, do you think that any Canadian in his right mind would want to buy these shares? I have their balance sheet here and this is why I have asked you the question.

Mr. SHARP: I cannot answer for Canadians in their right minds.

Mr. MACKASEY: Would you recommend such a purchase?

Mr. SHARP: The Minister of Finance never recommends any purchase.

Mr. MACKASEY: I did not expect to get an answer.

Mr. SHARP: Since the collapse of the Prudential Finance Company I have been getting all sorts of letters from Canadians asking me if it is safe to buy the debentures of various companies. I have refused to answer.

Mr. MACKASEY: The point I am really trying to get to, Mr. Sharp, is that if we are not anti-American, and if we want to maintain the spirit of this law, provided they have a change of heart—and you are the only man who knows whether or not they have had one; but we will presume they have—is there any particular reason why, if they divest themselves of their shares, or if they make Canadians part and parcel of their operation by offering them shares, you cannot provide some relief to them in their particular situation, either by postponing the effective date of the 20 to 1 application—I see Mr. Elderkin nodding; I am sorry, he was just patting his head!—or by giving them an opportunity to increase their capitalization immediately so that Canadians could then buy the shares knowing that one day they will become an investment rather than a speculation? Is there any particular reason that this would defeat the spirit of the bill which you keep referring to as not being anti-American?

Mr. SHARP: Mr. Chairman, if the National City Bank gave evidence that they were prepared to conduct their affairs in the spirit of the bill that is before you—and I cannot really speak for Parliament because I do not know—I would suggest that it might make quite a difference to the attitude of Parliament in dealing with the amendments to the bill.

I might make this quite clear, that from what I have learned of recent developments in the thinking of National City Bank I have not heard that they would like us to change either the spirit or the structure of this bill. I think they are finally convinced that the bill as introduced will be enacted into law.

Mr. MACKASEY: That is the intent of the bill?

Mr. SHARP: Yes, the intent of the bill. I know only in a very general way about this change in thinking that has taken place, and I am not yet in a position to know how much authority lies behind the suggestions I have heard nor

exactly how they would propose to act, but some evidence from the National City Bank that they are prepared to reduce their ownership to 25 per cent would, I believe, change the whole spirit within which this problem is being deliberated.

Mr. MACKASEY: Just to complete that, Mr. Sharp...

The CHAIRMAN: Would tou yield for a supplementary from Mr. Lambert?

Mr. LAMBERT: I wonder if Mr. Sharp might not speculate that the degree of reserve that he has expressed here with regard to what parliament might or might not do might not have been perhaps applied on a previous occasion by his predecessor?

Mr. SHARP: Mr. Chairman, I am puzzled by the question. The problem that was placed before my predecessor was that the National City Bank was contemplating the outright purchase of the Mercantile Bank from the Dutch interests. There may have been some doubt whether they had or had not purchased it at that particular time. These speculations have all been debated *ad nauseam* and I will not go over that again, but that was the proposition. There was, at that time, no consideration of any other kind of transaction, so that I find it very difficult to answer a hypothetical question like that.

Mr. LAMBERT: May I clarify my question?

The CHAIRMAN: Just a moment, Mr. Lambert. We must see if Mr. Mackasey wishes to have the floor back or is willing to allow you to ask further questions.

Mr. MACKASEY: Knowing Mr. Lambert's reputation for brevity I am more than happy to allow him to ask another question.

Mr. LAMBERT: You have just said that you were not too sure how Parliament would deal with this bill, yet your predecessor did say that there was a strong chance that this bank might not have its charter approved at the next renewal. That is why I say that your predecessor might have used the same reserve as you are now using.

Mr. SHARP: I really cannot confirm anything that my predecessor may have said because I was not there to hear it.

Mr. MACKASEY: Mr. Sharp, more for my information and for those of the Committee who may not be aware of it, at the present moment, presuming this bill was not before us, there is no statutory limitation on the ratio between authorized shares and liability. In other words, I believe some banks are up as high as 60 to 1.

Mr. SHARP: Yes; there is no limit, and the relationship varies considerably from bank to bank.

Mr. MACKASEY: In other words, a bank has two media at its disposal to make a profit. One is by this leverage which in some cases is 60, and, of course, the second one is by increasing authorized capital. Am I right there?

Mr. SHARP: That is right.

Mr. MACKASEY: Now, the moment this bill comes into effect, one Canadian chartered bank, the Mercantile, will be expected, because of its corporate structure, to go back to a 20 to 1 ratio, or, for that matter so will any bank that is in that position.

Mr. SHARP: Yes.

Mr. MACKASEY: I keep returning to this point because I am thinking of a potential investor in that bank. If the Mercantile were, as of Monday, to place on the market some of their authorized shares, or obtain permission to increase their authorized shares through the medium of putting them at the disposal of Canadians, why would a Canadian buy these shares, if he was conscious of the possibility that by this effective date they might not have reached the position of 20 to 1 and would forever be restricted until such time as they could get rid of the shares?

Mr. SHARP: Yes, there would be some legitimate doubt.

May I anticipate a little, Mr. Chairman? I did say in my opening remarks that I intended, at a later time, to deal with the question of a restriction on the transfer of shares of a bank to a non-resident when more than 25 per cent of the shares are owned by a non-resident. Perhaps I should make it clear now that I do intend to place before the Committee such an amendment which would have the effect that if the Mercantile Bank, for example, were to offer shares none of those could be taken up by non-residents. They would all have to be offered and held by Canadians.

Mr. MACKASEY: Mr. Sharp, this is all very well, but why would a Canadian shareholder pick up these shares knowing that this 20 to 1 ratio was hanging over his head, or, at least, the effective date of the 20 to 1 ratio?

Mr. SHARP: You are talking about two kinds of circumstances, not one. One circumstance is that the National City Bank disposes of some of its present shares. If it disposes of 75 per cent of its present shares it would then be free of that restriction.

There is another circumstance, under which the bank might offer shares of new stock to the public. That would only be possible by an increase in capital.

Mr. MACKASEY: That is right.

Mr. SHARP: The two processes might have the same terminal result but they are of a different kind.

Mr. MACKASEY: This is my last word, Mr. Sharp. The Committee has been more than fair. I want to finish now because I know Mr. Cameron is anxious to ask some questions.

You accurately pointed out the two methods but you have not solved my problem about why a Canadian would want to buy this increase in authorized shares knowing full well that possibly from January 1, 1968 on the bank will be operating in a very restricted manner until such time as foreign participation in the bank will be down to 25 per cent, which could take a decade?

Mr. SHARP: May I answer the question in general. Mr. Chairman? If the National City Bank had definite plans for reducing its holdings in the Mercantile Bank to 25 per cent I believe it would be in the Canadian interest to facilitate those plans.

Mr. MACKASEY: Have you any short suggestions on how you could facilitate this?

Mr. SHARP: None that I would care to make right now.

Mr. MACKASEY: In conclusion, then, what you are saying is that if the Mercantile have shifted their position of last Thursday, as outlined by Mr. Rockefeller, and indicate that they welcome Canadian participation in the bank, we will not adopt a dog-in-the-manger attitude, particularly in view of the fact that we are not anti-American in our intent?

Mr. SHARP: We will take what I hope is a very good Canadian attitude.

Mr. MACKASEY: Thank you, Mr. Chairman.

Mr. MONTEITH: Can I ask one supplementary to Mr. Mackasey's question?

This has reference to clause 75(2)(g). I would like to follow up Mr. Mackasey's suggestion that if Mercantile is going to dispose of its shares to Canadians they should be attractive. They have to be attractive.

Would it not be reasonable to suggest some other figure than exceeding 20 times its authorized capital stock? I make this suggestion because actually the position of the bank at the moment is that it has exceeded this 20 times, and if there is going to be any possibility of further growth and so on, would an amendment to another figure not be worthy of consideration? You might want to make it 40 times, or something of this nature?

Mr. SHARP: I would not so recommend, Mr. Chairman.

In the first place, as I said earlier, the Mercantile Bank could transfer some of their business on to the books of their parent company and thus ease the situation somewhat.

Mr. MONTEITH: Then this bank would hardly be profitable? It is not profitable now. How can this increase its attractiveness to investing Canadians?

Mr. SHARP: That is not the question you put to me, sir. It may have been the question that you were leading up to but I was answering a specific question about the fact that they were now limited and could not grow.

They could take on more Canadian business without too much difficulty if they wanted to transfer some business that could have been done from the National City Bank just as well as from Mercantile.

Mr. MONTEITH: I know I am usurping someone else's time, Mr. Chairman, but may I just say that this still would not, in my estimation, increase their profitability and make them attractive to Canadian investors.

The CHAIRMAN: Well, Mr. Monteith, perhaps we could put you down as number one for the second round of questioning, and in the meantime we will see if there are any other members who have not had an initial opportunity to pose questions and who wish to do so.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I might say that when I first took the floor I thought we were confined to discussion of agencies. I did not realize that the whole question of Mercantile was going to be brought up now.

The CHAIRMAN: I took the position that it would be unrealistic to try to approach the matter in any other way. I think it is clear from the direction in which the questions have been going that perhaps this was the most suitable way to do it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I rather carefully confined myself to discussion of the agencies.

The CHAIRMAN: You deserve some commendation for that, certainly, but—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I want more than commendation.

The CHAIRMAN: The rewards I have are very limited. I was going to suggest that your name would follow that of Mr. Monteith when we began our second round.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I shall have to settle for that, I guess. It was my own folly.

The CHAIRMAN: Of course, they say that virtue brings its own regard.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have never known it to do so, in a long life, Mr. Chairman.

The CHAIRMAN: As a younger person I will have to take your advice very seriously.

Are there others who have not had an initial opportunity to pose questions to Mr. Sharp on this general topic?

(*Translation*)

The CHAIRMAN: Mr. Latulippe?

Mr. LATULIPPE: A supplementary question, on this subject, if I may be allowed.

The CHAIRMAN: Yes.

Mr. LATULIPPE: Mr. Minister, do you feel that there is enough capital in Canada right now?

(*English*)

Mr. SHARP: No, Mr. Chairman.

(*Translation*)

Mr. LATULIPPE: In that case, if we need more capital, why not let in a bank, a foreign bank, an American bank, a neighbour bank, citizens with whom we have close relations, why not invite them to come to Canada and lend us their capital since Canadians have to pay interest on either American, French or English capital. I really do not see much difference. So, if we are lacking capital, why then do our authorities, provincial, municipal, or school, have to travel to various parts of the world, to the United States mostly, to solicit capital? These citizens will deal with the same organizations, the same banks, or the same money lenders to get the required capital to finance the school commissions and municipalities when, were a bank to set up here, it would bring in capital and would give direct service on the spot? It seems to me that this bank could be submitted to the same conditions and have similar privileges to those of Canadian banks with regard to its operations. If we did not lack capital, it would be another story. But if we lack capital, I presume we should do something and I am wondering what the Minister thinks about this.

(*English*)

Mr. SHARP: Mr. Chairman, I do not think the fact that the National City Bank purchased the Mercantile added very much to the availability of capital in Canada. That is not the issue here.

There is no limitation whatever upon the right of Canadians to borrow money in the United States if they wish. Indeed, as the bankers here know, they get a good deal of competition from American banks who are financing Canadian industry today. This is a good thing, I think. I think our banks need a lot more competition than they have. The fact that Mercantile Bank is operating here does not really affect the availability of foreign capital very much because the main activity of the Mercantile Bank will be to gather the savings of Canadians, not the savings of Americans, and to invest them in Canada.

The question of agencies, the original point from which we started on this long detour, is relevant here. Agencies simply facilitate the financing of Canadian business by American banks. They do not add anything to the resources that are available; they simply make them a little more accessible.

There is nothing wrong, per se, with this kind of imported capital as compared with any other kind of imported capital. It is borrowed money; it does not represent an increase in the ownership of Americans of our business; it represents a charge upon it; in one way or another we have to finance our balance of payments deficit, and in some respects this is a preferable way of doing it if it has to be done.

The CHAIRMAN: I think Mr. Fulton indicated that he wished the floor. Perhaps I should recognize him at this point.

Mr. FULTON: Thank you, Mr. Chairman. I understand, Mr. Sharp, that at an earlier stage today in discussion of this matter, you said that you did not contemplate at this time any action by way of legislation to allow the setting up of agencies. May I ask, then, whether we are to infer from that—and, mind you, I am not assuming that your government will be in office for the next ten years—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Not like Mr. Cameron.

Mr. FULTON: Do I infer from that—and if I am wrong will you please correct me—that in your view it would be another ten years before this could be done? Or would you contemplate not necessarily waiting until the next decennial revision?

Mr. SHARP: During your absence I did say that I thought we should look at this problem during the next few months, with the objective of taking a decision then. I do not have in mind waiting until the next decennial revision of the Bank Act. Indeed, my officials are of the view, that it would probably be better to have a piece of legislation separate from the Bank Act for the establishment of agencies. In any event, this particular piece of legislation will not be part of the decennial review of the Bank Act.

Mr. VALADE: I have a question, Mr. Sharp. I was wondering what were the criteria, or if there is any policy designed, for limiting the number of agencies either in units, or in capital, in Canada.

Mr. SHARP: I said, in reply to a similar question, that there would have to be a limitation, I think, both on the number of offices and upon the scope of the operation.

Mr. VALADE: Is there any determined or fixed policy to limit, in the immediate future or later, the amount of units of agencies coming into Canada, either from the United States or from other sources?

Mr. SHARP: Perhaps you misunderstood what I said. I said that any legislation to permit the establishment of agencies should, in my opinion, include a limitation on the number of offices.

Mr. VALADE: But this will be made, Mr. Sharp, only as the demands arise in that field, not in an over-all, designed plan?

Mr. SHARP: This is one of the problems, and this is one of the reasons that I feel we should have a little longer time to consider the situation.

It is very likely that if we did permit the establishment of agencies in Canada there would be very widespread interest. As I have already said, a fair amount of financing of Canadian business is now being done by American banks. Some of those banks, I am sure, would like to have an agency in Canada because it would facilitate the doing of that business. I think we could also expect to have an interest shown from other countries. I think we could expect to have an interest shown by Japanese banks; perhaps by some English banks; and perhaps the odd European bank. This is one of the reasons why I feel that it would be desirable to move with deliberate speed here rather than to take now decisions that would be taken without a full regard for all the implications of such action.

Mr. VALADE: There will have to be some kind of a ceiling calculated for the licencing of these agencies in Canada so as to allow a ratio or proportion of foreign agencies. I have in mind the area of either U.S. agencies or European agencies. If there is to be a certain balance of interest, or investment, in Canada then certainly this proportion, or this balance, must be kept in mind by legislation, otherwise it will be concentrated in one source of investments; and is this not the problem we are facing today in this regard?

Mr. SHARP: Mr. Chairman, I do not know whether the significance of the establishment of agencies is fully understood.

These agencies will not gather the savings of Canadians. They will be lending money from the parent bank. That can now be done. There is nothing at all to prevent Canadian companies from borrowing money in Tokyo, or in New York, or in Chicago, or in San Francisco; and this is done. The agencies, in the main, facilitate the business, and there would be accorded to agencies some privileges that would be very valuable to banks who would establish here. However, this has very little to do with the issue of foreign capital entering the country. The amount of capital that enters Canada is determined by considerations other than the establishment of agencies.

That is the only point I would like to make, Mr. Chairman.

The CHAIRMAN: I gather that what you are saying is that agencies will lend money rather than invest it.

Mr. SHARP: Yes; that is right.

Mr. VALADE: Mr. Sharp, you may correct me if I am wrong, because I am not a professional in banking either, but on the business aspects of the results of

these agencies, will they, in fact, become some kind of barometer, or thermometer, on the climate of investment in Canada so that those agencies will either do their investing on a large or small scale? Will it not have this effect?

Mr. SHARP: No; I do not think that is a proper conclusion. I am sure that when the bankers were before you, although I did not have the privilege of being here, they described how their agencies operate in New York. I understand they do a very profitable business, but they do not gather the savings of Americans to do that.

The CHAIRMAN: Thank you, Mr. Valade.

I think we might now begin our second round.

I might say, just as a point of interest, that before we began our meeting this afternoon I was downtown and I dropped into a small retail store on Sparks Street. The manager approached me and asked where he and his wife might be able to buy some Mercantile Bank shares. You might want to pass this information along to the owners of the bank!

Mr. MACKASEY: I hope the prospectus indicates a true financial position.

The CHAIRMAN: I took the same position as that of the minister and said that I did not think it would be advisable for me even to venture a suggestion.

In any event, to begin our second round of questioning I will recognize Mr. Monteith who, I know, may want to yield to Mr. Lambert.

Mr. MONTEITH: Yes, I would just like to follow up my last question, if I may. Might it not make it more attractive for Canadians to invest in the Mercantile stock if the present owners of the banks decided to divest themselves of 75 percent of their holdings, bearing in mind that this divesting cannot take place over night, and the changes in the Bank Act will be coming into force reasonably soon,—I come back to the qualification—and if, in the meantime, some greater incentive were allowed to enable the bank to go ahead, progress and make money in that interim, such as removing the provision in respect of "20 times the authorized stock", which at the moment has been exceeded.

Mr. SHARP: I can only answer this question, Mr. Chairman, by saying that the government does not intend to change that ratio; and while the National City Bank, of course, asked to be free of all these restrictions, anything that I have heard about the thinking that they have been doing recently does not depend upon a change in that ratio.

Mr. MONTEITH: Well then may I ask just how the figure of 20 was arrived at, rather than 18 or 22, or 15 and 25.

Mr. SHARP: Some figure had to be taken and, if I may venture an opinion as to why the "20 times" was taken, it was considered to be sufficiently high to enable the bank to continue in operation and sufficiently low to be a very strong incentive to dispose of 75 percent of their shares.

Mr. MONTEITH: You say, sufficiently high to have the bank continue in operation but, if it cannot go any higher, it cannot make money, according to that financial statement of Mr. Mackasey.

Mr. SHARP: Well, I will not speak for the affairs of the Mercantile Bank but I understand that the National City Bank inherited some accounts that were not the most profitable. The former managers and owners of the bank had not

conducted a very prudent banking business. Their investments left something to be desired.

Mr. MACKASEY: I hope, Mr. Sharp, that you are not representing the Mercantile.

Mr. SHARP: No...

Mr. MACKASEY: I got that inference and I know it was unintentional.

Mr. SHARP: No, I do not think that could be taken from what I said.

Mr. MACKASEY: I am only kidding. There is still enough money in their undivided profit to look after ten people like myself.

The CHAIRMAN: I said I would recognize Mr. Cameron and I think I should do so, and following him we will move directly to Mr. Lambert.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Sharp, I am going to make a suggestion which I hope you will accept not as a doctrinaire position but as a practical suggestion in the light of the situation we now find ourselves in. Mr. Mackasey has very ably brought out the fact that there may be great difficulty in inducing Canadians to invest in the Mercantile Bank and I must say the same thought occurred to me when I read the report of your hopeful comments about Canadians investing in it. It has occurred to me that this situation cannot be left unresolved for another reason—a much more fundamental reason. If it is not resolved then it is going to be a continuing source of irritation between ourselves and our neighbours. I am sure the Minister is only too well aware of that, and it seems to me we must do something to avoid having an unnecessary exacerbation of our relations with the United States.

Mr. Sharp, have you considered the Canadian government making an offer to the National City Bank for its interest in the Mercantile Bank. In order to buttress my position in this, I would like to, if I may, make some reference to experiences in some other countries. As I have no doubt you are aware, Mr. Minister, the Bank of New Zealand is not only the central bank of New Zealand but also it is the largest commercial bank in that country, and it is owned by the government in New Zealand. They faced a similar problem in connection with one certain bank some years ago, the original bank of New Zealand, which on a number of occasions got into difficulties and had to be bailed out by the government, and finally the government took it over. Since then, as I say, it has become, I think, the largest commercial bank in New Zealand.

A similar experience took place in Australia with which we, as Canadians, have a certain interest as the Commonwealth Bank of Australia was established by a Canadian. It also combined its functions of a central bank with that of commercial banking, and it is the largest bank in that country.

My third instance is France, where the four—which quite recently I believe merged to only three—largest banks in the country are publicly owned, in addition to the Bank of France which in addition to its central banking activities also engages to a limited degree in commercial banking.

I suggest to you, Mr. Minister, that this would be not only a solution to this very serious problem that we have right now—and as a member of the government that has taken quite an uncompromising position on this, I am sure you do not need me to point out that it is extremely difficult for you to retreat—but in addition to that, the operation of the Mercantile Bank, or call it what you will,

as a government chartered bank operating on the same terms as other chartered banks, would provide us, perhaps, with some unequivocal content of competition in our banking system. We might even be able to control some of the actions of the chartered banks that were revealed in a letter I was given today, dated December 2nd, 1966, in which a customer of one of the banks had a letter from the bank saying in part. "Your borrowing account has been individually assessed, as of all others on our books, and after taking all factors into consideration, we find it necessary to charge a service fee of 12½ cents per 100 dollars monthly commencing this month to compensate for the increased costs referred to above. This amounts to an increase in interest rate of 1.5 percent."

I would like you seriously to consider this way out of our impasse and seriously consider this proposition as a useful and valuable injection of a real competitive element within our banking system.

Mr. SHARP: Mr. Chairman, I will agree with at least one statement by Mr. Cameron and that is that I think we should all welcome a resolution of this issue in the interest of our relations with the United States and also more generally in relation to the functioning of our banking system as a whole. This issue undoubtedly has exacerbated relations between Canada and the United States. I do not think it has exacerbated those relationships as much as has sometimes been suggested, but it is not a desirable incident or one that has promoted good relations between our two countries. Therefore I am very strongly of the view that if we can resolve this issue in a constructive way, within the spirit of the legislation that has been put forward, this would be a most desirable outcome. I hope that the Committee as a whole will take the same view as you have on this matter.

The CHAIRMAN: In other words, are you referring to the government seizure or purchase of the—

Mr. SHARP: No; I am talking about the desirability of getting a constructive solution to this problem.

As far as the government entering the banking business is concerned, the government is indirectly in the banking business today through the Industrial Development Bank, in which it is making loans directly to industry through a subsidiary of the Bank of Canada—in this case, fortunately, far enough removed from political control that no one has ever suggested that the I.D.B. acted in anything except the interests of the shareholders, who are the government of Canada and the taxpayers of Canada. I think this has been an operation that has been conducted in an admirable way.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Minister, I think you will agree, however, that the I.D.B. is not a bank in the terms in which we usually regard a bank. It does not accept deposits from the public.

Mr. SHARP: No, but it carries on a business, if not—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is a lending agency.

Mr. SHARP: Yes, and if not competitive with the banks it is at least complementary to the banks and it provides a place to which borrowers can go who do not have access either to bank credit or to the money market.

I, personally, do not believe that it would be in the public interest for the government of Canada to own a chartered bank and, if I did think that it would

be, this is not the way I would go about it. I would not want to go in by the back door in this way. If I thought that it would be in the public interest for the government to go into the banking business, I think we should establish our own bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have no objection to that at all. It was my idea to solve this other problem.

Mr. SHARP: Yes, but I do not think that it would be desirable to take this sort of a decision on the basis of trying to clear up a situation that can be cleared up, in my judgment, by sensible action on the part of the owners of the bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Excuse me Mr. Minister, may I add a supplementary question. Surely you realize that no matter what the views may be of those who control the first National City Bank, this outcome cannot be achieved unless the Parliament of Canada alters the legislation that is before us, or unless—and I think this is extremely doubtful, as do other members of the Committee—you are able to persuade the citizens of Canada to invest in the Mercantile Bank as it is at present constituted under the possibility of continuing restrictions. It is not merely up to the National City Bank.

Mr. SHARP: If I may say so, it is possible within the legislative framework now before us to enable the National City Bank to dispose of 75 percent of its shares over a reasonable period of time without altering any of the provisions of the Act as they now are. However, the problem of policy has to be taken into account too. The framework for a solution to this problem is to be found within the bill that is before you and the Bank Act as amended.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, Mr. Minister, the provisions in the bill before us which permit the Bank of Western Canada to have a clear ten year divesting period do not apply to a bank with foreign ownership, and I cannot see how the bill, unless it is amended, will achieve the purpose you suggest.

Mr. SHARP: I am not suggesting by my answer that it might not be found desirable to make a minor change or two in the bill to facilitate sale of shares. All I want to say is that it is possible within the present Act for a successful offering of shares to be made, in my judgment.

The CHAIRMAN: I will now recognize Mr. Lambert, followed by Mr. More.

Mr. LAMBERT: There are two points I would like to raise, Mr. Chairman. First of all, in connection with the requirement that no more than 25 per cent of its issued shares are held by any one resident or non-resident shareholder, as provided for under clause 75 (2) (g), and again, under clause 53 (1) (a) and related subclasuses, just what is magical about a resident being a Canadian? There has been a good deal of sales to Canadians but I can be a resident of this country and not be a Canadian.

Mr. SHARP: Yes. This word has been used loosely; what is meant is resident.

Mr. MACKASEY: Could you not own it if you lived out of the country and were a Canadian citizen?

Mr. SHARP: It would not apply to a Canadian under those circumstances, and it might be that some non-Canadians who would be residents of Canada would

be eligible to own these shares. The effect in the act, as I understand it, is residence, not citizenship. If I have used the word "Canadian" it has been in that loose sense of a Canadian resident rather than a Canadian citizen.

Mr. LAMBERT: Therefore, there is no guarantee that a bank will not be under majority or almost entirely foreign national control under the provisions of this act?

Mr. SHARP: I see no suggestion that any of them are, except the Mercantile Bank.

Mr. LAMBERT: Yes, but the only point is that it has always been said that this bank shall be controlled by Canadians and all that means is controlled by residents of Canada.

Mr. SHARP: That is right.

Mr. LAMBERT: Now, there is another point that I want to make. The continuation of the present Bank Act expires about the first of April or thereabouts. I take it that the Minister is aware of the provisions of the bill that was proposed by Senator Javits in the 89th Congress and which I understand has or is about to be re-introduced. I am sure that the Minister is aware of the provisions in clause 6, subclause (b) where it states in part—and this is from the Javits bill—

> If at any time, the foreign government under whose laws the parent bank of the agency, branch, or controlled subsidiary is organized, changes its laws or regulations affecting United States banks operating thereunder directly or through subsidiaries the Comptroller of the Currency shall have authority to impose the same conditions upon the foreign banking corporation or its branch, agency, or controlled subsidiary operating within any State.

It is theoretically possible that this act or one similar to it, with this particular provision, could be passed by the time the new Bank Act will have come into force, and I am wondering what cognizance has been taken of this possibility by the Minister in his arriving at the decision that he would defer to some later date, after some months study, legislation that would permit agencies of foreign banks to operate in Canada.

Mr. SHARP: I have not studied the provisions of the Javits bill, which, incidentally, is for the purpose of encouraging the operation of foreign banks in the United States under some sort of uniform rules. That is the purpose of the bill.

The section to which Mr. Lambert has referred is the limitation upon this or one of the qualifications, the qualification of reciprocity, which is not mandatory but, as he had read it, permissive. I would not say that I had the Javits bill particularly in mind in suggesting that we should over the next few months have a good look at the question of agencies, but I did say in my opening remarks that I felt that it would be desirable to make the decision after we have had a chance to reflect upon developments both in Canada and abroad.

Mr. LAMBERT: Of course, I think the Minister is quite cognizant that among all the flowers and the ease, there are these bricks that one can stumble on.

Mr. SHARP: As Minister of Finance, I am more conscious of this than any other member of the House of Commons.

Mr. LAMBERT: Might I also add—and this refers back to something that was said this morning in your opening discussion on the definition of banking—that here is one bill that does try to define the business of banking.

Mr. MORE (*Regina City*): Mr. Chairman, I just want to clear up something that the Minister said, as I understood it, in answering Mr. Cameron about the resolution of the problem that we have with the Mercantile.

Do I understand, Mr. Minister, from what you have said, that if the present bill became law it would still commit you as Minister of Finance to accept the proposal of Mercantile to divest itself, as called for, and give you the right to accept a proposal from them similar to the power you exercised with the Bank of Western Canada?

Mr. SHARP: I do not want to mislead the Committee, Mr. Chairman. I did not say that it would be possible to apply to the Mercantile Bank and the National City Bank the same rules as we have applied to the Bank of Western Canada. That was not the question that I was asked. I was asked a rather different question, and I would answer specifically that it would not be possible under the present bill to apply the same rules to the Mercantile Bank as have been applied to the Bank of Western Canada.

Mr. MORE (*Regina City*): But you would have some discretionary power to deal with the Mercantile situation under this bill.

Mr. SHARP: There is discretionary power in the act, which I am sure everyone is familiar with, that enables the Governor in Council to approve increases in the capital of any bank.

Mr. MORE (*Regina City*): Yes, and that is the only power that there would be in this bill.

Mr. SHARP: That is right.

Mr. MORE (*Regina City*): And is this sufficient to resolve the Mercantile situation?

Mr. SHARP: I can conceive of circumstances under which it would be sufficient.

Mr. MORE (*Regina City*): You can.

Mr. SHARP: Yes, I can.

Mr. MORE (*Regina City*): In other words, as proposed by Mercantile to start to rectify this situation would not bring an exemption from the restriction. In other words, no exemption from that restriction could be granted by the Governor in Council if they made a proposal to divest their interests within a period?

Mr. SHARP: Under the present law, the Treasury Board must approve the capital of any bank. Under the proposed bill that authority is transferred to the Governor in Council, but otherwise I think it remains the same.

Mr. MORE (*Regina City*): I believe you were quoted as saying that you were aware of Canadian residents who would purchase shares of Mercantile?

Mr. SHARP: It has been said to me when I have been visiting some of the great financial centres of this country that the National City Bank might be surprised at the alacrity with which the shares would be taken up if they knew

that the Mercantile Bank, within a measurable time, would not be subject to the restrictions of 75(2) (g).

Mr. MORE (*Regina City*): This is exactly the point, Mr. Minister, that I want to get to. Provided the Mercantile made a proposal to divest itself the people who would buy those shares would want to do so with the understanding that this action would mean no restrictions. Do you really think they could be purchased to such an extent that it would lift the restrictions within one year or two years? Would it not take a period of five years for resident Canadians to make an investment of that nature; and would not the bank have to have freedom to improve its position during that time, if the shares were going to be interesting.

Mr. SHARP: I recognize that the Mercantile Bank and the National City Bank have a very serious problem.

Mr. MORE (*Regina City*): But under this bill, without amendment, would you be in a position to use your discretionary powers to help them solve the problem in the interests of arriving at what we want arrived at by this act. I take it, it would require an amendment.

Mr. SHARP: No. I must answer the question as I answered it originally. I can conceive of an arrangment under which it would be possible without any amendments to the act and to the bill for the Mercantile Bank to make offerings of shares to Canadians. I can also conceive of circumstances under which it would be easier for them to proceed to such a result by minor amendments to the act.

Mr. MORE (*Regina City*): This is what I mean. Amendments would be required to the act; otherwise the only way that they could divest themselves so that the restriction of operation would not apply would be to dump 75 per cent of their shareholdings on the Canadian market.

Mr. SHARP: No, I cannot agree with that statement.

Mr. MORE (*Regina City*): That is not right.

Mr. SHARP: No.

The CHAIRMAN: I gather that the Minister is trying to suggest that a lot depends on the particular type of proposal that is put forward.

Mr. SHARP: That is right. We are talking here in very vague terms, and since everything that I say may have to be read in the context of developments, I want my answers to be as accurate and as specific as possible.

Mr. MORE (*Regina City*): Well, I appreciate that and I am not trying to catch you off base, Mr. Minister, because I have the same concern that you and other members of the Committee have expressed. My thinking was different from Mr. Cameron's. I wondered if they could approach you and say, "We will put 25 per cent of our shareholdings on the Canadian market this year and would be prepared to put another 25 per cent on next year," and then the restriction that apply in the act would not apply. In this way Canadian resident investors would know that in a period of time they would be buying into an institution that was becoming a properly constituted one under the Bank Act, but its growth would not be impeded during this period. This is specifically the sort of thing that I had in mind in putting my questions to you.

Mr. SHARP: Well, Mr. Chairman, the interview that I had with the representatives of the Mercantile Bank did not in itself lead anywhere at all. As I said in the House, we simply reviewed the position. Since that time there has been communicated to me indirectly certain ideas but these are not yet of a form and are not as precise as the honourable member has suggested here. Therefore, I do not feel that I can speculate about them. I must give answers that will not lead to any speculation as to the policies of the government—

Mr. MORE (*Regina City*): I think I would be satisfied, Mr. Sharp, if you could tell me whether the bill, if it is passed in its present form, would permit the proposition I put to you. This is really what I would like to know.

Mr. SHARP: Under certain conditions the proposition you have put forward could be carried out without any amendments to the act, but that proposition has not even been put to me indirectly.

Mr. MORE (*Regina City*): I am not suggesting it was. It came out of my own head. I just wanted to know if the bill would negate any operation of that kind.

The CHAIRMAN: I now recognize Mr. Laflamme followed by Mr. Mackasey.

Mr. LAFLAMME: I have a supplementary question relating to clause 75 (2) (g). Is there a possibility, Mr. Sharp, that the limit could be extended, say, to December 31, 1967, for Mercantile to be disposed of to the extent of 25 per cent of its shares? I realize there are deposit accounts to July of 1966, and where it is still—

Mr. SHARP: I cannot really answer that question other than to simply say that we would consider such a suggestion. However, we have not made any decision of that kind that I am in any position to communicate. In any event, parliament would have to decide whether it wished to allow more time for the developments to take place. I cannot answer the question as to whether I would be disposed to favour such an extension of time because this matter has not been considered by the government, and I am speaking here for the government.

Mr. LAFLAMME: Is it possible for the Mercantile Bank to have an increase in its authorized capital before it disposes of its shares?

Mr. SHARP: Yes, there is no limitation, either in the present bill or in the act as it now exists, upon the right of the Treasury Board or the Governor in Council to increase the capital of any bank. That is solely within the discretion of the Treasury Board or the Governor in Council.

The CHAIRMAN: I now recognize Mr. Mackasey followed by Mr. Thompson.

Mr. MACKASEY: Mr. Sharp, I am a little concerned about the word "resident" as opposed to "citizen". Theoretically, why could not the present owner of Mercantile transfer 10 per cent of the shares to particular people and set them up in Windsor, for instance? In other words, how do you define "resident"?

Mr. SHARP: Perhaps I can refer this to Mr. Elderkin. He is a much more expert witness on this than I am.

Mr. ELDERKIN: That situation will be covered by the associate clause in the act where, if they set up a dummy corporation, et cetera, in Windsor, if you will, under the act it would be an associate of the National City Bank and it would be considered as one shareholder for that purpose.

Mr. MACKASEY: Let us say that they are insidious, they do not set up a corporation. Let us say that the stakes are high enough—and I am not just referring to Mercantile, but to anybody—why do we not tighten it up by saying "citizen" instead of "resident"? How do you define "resident"?

Mr. ELDERKIN: I think "resident" actually means resident address; ordinarily resident in Canada. This was very carefully discussed in the drafting of this bill. If you tried to prove how many of the many thousands of shareholders are actually Canadian citizens it would be a pretty onerous job and possibly almost impossible to prove. We finally decided to adopt the word "resident", and this means ordinarily resident in Canada.

Mr. MACKASEY: Suppose you have a senior citizen who, at the age of 65, decides to go to Florida for reasons of health.

Mr. ELDERKIN: He becomes a non-resident.

Mr. MACKASEY: He is discriminated against to the extent that he must comply with this law.

Mr. ELDERKIN: He becomes a non-resident.

Mr. MACKASEY: So, has fewer privileges than a resident who may have an address in Montreal and comes up here twice a year on a fishing trip.

Mr. ELDERKIN: No, he has to be ordinarily resident in Canada.

Mr. MACKASEY: Yes, but we do not define it.

Mr. ELDERKIN: Yes, we define it.

An hon. MEMBER: The clause defines it.

Mr. SHARP: The same problems arise with the taxing legislation. We have to decide what a resident or a non-resident, is for purposes of assessing tax.

The CHAIRMAN: I gather the term "ordinarily resident in Canada" has been interpreted by the courts over the years, particularly with reference to income tax law.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary?

The CHAIRMAN: Yes, if Mr. Mackasey will yield.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I just want to get clarification from the Minister of his answer to Mr. More that it would be possible to resolve this problem within the confines of the legislation which is presently before us. Am I right in assuming that the two methods that the Minister has in mind of resolving this are, (1), the use of the powers of the Governor in Council to authorize expanded capital and, (2), the rather more hypothetical proposition that there would be enough Canadians prepared to buy shares while this act is in effect? I am quite puzzled to know how the Minister can take the position that without amendment this act can do what he is suggesting can be done, and without quite serious amendment as far as the Mercantile Bank is concerned.

Mr. SHARP: Mr. Chairman, this is why in one of the interjections I made and, indeed, at the opening of my testimony, I said that I proposed to amend the bill by proposing a restriction on the transfer of shares of a bank to a non-resident when more than 25 per cent of the shares are then owned by one non-resident. I am going to propose that any such tranfers must be to a resident. The bill,

as I gather it has been pointed out in the Committee, is faulty in this respect. During the examination before this Committee, a loophole was discovered whereby it would be possible for these shares, if we did not make this amendment, to be transferred to non-residents. This is not our intention. Our intention is that any shares which are transferred or sold by a bank that is more than 25 per cent owned shall be to Canadians, that is, to residents in Canada. This would then prevent the Governor in Council from increasing the authorized capital of the Mercantile Bank, for example, in such a way as to enable the National City Bank to issue additional shares to itself.

Mr. MACKASEY: May I ask a supplementary? Such an amendment would permit the authorized shares to be increased, provided they remain in the hands of Canadians?

Mr. SHARP: Such an amendment would not prevent the shares being sold to residents of Canada. It would prevent them being sold to residents of the United States, including the present owner of all the shares. However, the decision on whether to permit an increase in capital per se remains within the discretion of the Governor in Council.

Mr. MACKASEY: What you are making sure of is that if he does decide to do this that it will not be to foreign hands, it will be to Canadian hands, and you are taking further action to make sure that those Canadians then do not transfer them to foreigners? In other words, the onus is on Mr. Rockefeller to get rid of some of his marbles that he was talking about the other day and stop playing with them. If he wants to increase the authorized shares of capital, the only way he can do it is to let Canadians participate in his bank.

Mr. SHARP: That is right.

Mr. MACKASEY: Which comes back to Mr. More's problem, and I do not want to get into that and force you into a position where you could be misinterpreted.

The CHAIRMAN: Have you completed your questions, Mr. Mackasey?

Mr. MACKASEY: Yes, Mr. Chairman.

The CHAIRMAN: I just want to draw to the attention of the Committee, and I think Mr. Elderkin will agree, that in clause 52 on page 28 of the English text of the bill there are definitions of "resident" and "non-resident" which bring into account the concept of "ordinarily resident in Canada". Clause 54 would appear to be designed to prevent voting by resident nominees of non-residents.

Mr. FULTON: But at the same time, Mr. Chairman, "resident" means an individual corporation or perhaps it means "not a non-resident". You have to go back to the law as it is interpreted by the courts.

The CHAIRMAN: Mr. Fulton, if you will look higher up on the page, they then define "non-resident" as:

> an individual who is not ordinarily resident in Canada.

Now, as a person who does not spend his time drafting laws, I may wonder why they did not put that concept in the definition of "resident" instead of going about it in a convoluted way like that, but perhaps this is the way parliamentary draftsmen have worked for generations and I suppose it would not be proper for us to attempt to jolt them out of their appointed paths.

Mr. SHARP: Are you suggesting that members of parliament who are lawyers are better draftsmen than civil servants who are lawyers?

The CHAIRMAN: I would exclude myself from any such suggestion, but if we look at people like Mr. Fulton or Mr. Laflamme perhaps we might accept your suggestion.

Mr. SHARP: Yes, but Mr. Fulton was a former Minister of Justice.

Mr. FULTON: I was trained.

Mr. MACKASEY: And Mr. Laflamme may be a future one.

The CHAIRMAN: I now recognize Mr. Thompson.

Mr. THOMPSON: Mr. Chairman, I do not want to be repetitious in any way but clause 75(2)(g) sticks uncomfortably in my craw. The Minister stated today that the government does not intent to amend, delete or change clause 75(2)(g) in any way. I think we all recognize that Mr. Sharp has built up a reputation for himself of being a fair minded man, but do you really feel, Mr. Sharp, that this clause is not discriminatory?

Mr. SHARP: Yes.

Mr. THOMPSON: Without getting into the Mercantile—Gordon—Rasminsky argument again, Mr. Rasminsky's words are not the law of this land and neither are Mr. Gordons', and Mercantile broke no regulations or contravened no law in purchasing a bank that was already foreign-owned. By imposing a restriction on the Mercantile Bank that applies to that bank, only, do you not feel that the law is not fair in the sense of being non-discriminatory? How can you impose a requirement on one bank that you do not impose on another and still say that you are not discriminating?

Mr. SHARP: The short answer, Mr. Chairman, is that we do not only apply this to the Mercantile Bank. It now applies to the Bank of Western Canada. It might even apply to the Bank of British Columbia if they found some difficulty in getting their shareholdings down to a level where no one shareholder had more than 25 per cent, and although the arrangement with the Bank of Western Canada is for purposes of facilitating the transfer of their shares, they are not exempted in any way from the operation of clause 75(2)(g).

Mr. THOMPSON: I believe our Canadian people—and certainly this applies to foreign people who are familiar in any way with the operation of Canadian laws—have confidence that our laws are fair and equitable but I think there is a real danger in this clause, particularly as it relates to our foreign friends, whoever they might be, in that they may regard this type of legislation as discriminatory. While I say that, I recognize that Canada is an autonomous nation and she can pass any laws she wants to, but do you not think, by requiring that no bank be foreign-owned to a greater extent than 25 per cent, that you are actually accomplishing the very thing you want to accomplish anyway without clause 75(2)(g) being in the bill?

Mr. SHARP: Would you repeat that question.

Mr. THOMPSON: In other words, do you not think, by requiring that all banks have not more than 25 per cent foreign ownership, that you are accomplishing the very thing you want to accomplish, without having clause 75(2)(g) in the

bill? In other words, if this new legislation which we are now considering in this bill required that no banking organization present or future be owned by foreigners to a greater extent than 25 per cent, do you think that you would be protecting our own situation as you feel it should be protected, without including a clause such as 75(2)(g)?

Mr. SHARP: If we did not have a clause like 75(2)(g) it would be possible for a wholly-owned subsidiary of the National City Bank to expand to an unlimited degree, except to the extent that the Governor in Council refused to increase their authorized capital.

Mr. THOMPSON: I have not made myself clear, Mr. Sharp. Why do you not just require that all banks operating in Canada that have Canadian charters shall not have foreign ownership exceeding 25 per cent and be through with it? You cannot call that discriminatory because one of the present banks could very well sell 50 per cent of their present shares to American interests, there is nothing to stop them, so you cannot say that clause 53(1)(a) is discriminatory. Why not just make this a compulsory part of the act and let it go at that?

Mr. SHARP: We have made it a compulsory part of the act, if you want to use those terms, by requiring that no one may acquire more than 10 per cent of the shares of any other banking institution. That is part of this bill.

Mr. THOMPSON: I am not arguing against that. I agree with that.

Mr. SHARP: It is every difficult to maintain that position and then permit the wholly-owned subsidiary which owns 100 per cent of this bank to continue to operate as if this were in accord with the spirit underlying the legislation.

Mr. THOMPSON: I am not saying that it should do so. I am saying if you believe that it is essential in order to protect our own financial policy in Canada in the operation of our financial institutions that you should limit the amount of foreign ownership of any bank, why not come in the front door and do it instead of coming in the back door, which you say you oppose, by requiring them to do it through a clause like 75(2) (g)? Why do you not come straight forward and say that?

Mr. SHARP: There would have to be some sanction, Mr. Chairman, in such a law. Certainly it is very fortunate that the share ownership of all our chartered banks, with the exception of the Mercantile Bank is very widely dispersed. Indeed, we have only found one shareholder who owns more than 10 per cent of the shares of any of the other Canadian banks.

Mr. THOMPSON: But I am not arguing with that, Mr. Sharp. I am not arguing with that at all. I am agreeing with you in that regard, but you have said—and I am not quoting you exactly—that you have fears regarding the National City Bank of New York and Mercantile as it is presently set up. I am not arguing with you in any way in this regard but would it not be more of a front door entrance—and I am referring to this because you used these words yourself a while ago—to come out point blank and say that you are going to restrict the foreign ownership of any bank in Canada, including Mercantile, but you are going to give them a reasonable period of time—five years, or whatever might be reasonable—to divest themselves of 75 per cent of the shares of Mercantile, then and delete clause 75(2)(g) altogether, because in effect what you are going to do by placing a limitation on clause 75(2)(g) is force them, I would think, to come

under clause 53(1)(a) anyway. It is a back door approach to applying the law to them. At the same time we are spoiling our own reputation because I believe we are leaving ourselves wide open to the accusation of being discriminatory in this legislation as it is stated in clause 75(2)(g).

Mr. SHARP: I see no difference in the discriminatory or the retroactive character of the legislation if we had a clause somewhere else in the act that said that the National City Bank must, on peril of losing their licence, reduce—

Mr. THOMPSON: You do not say that. All you have to do is to put in a general regulation, because there is no reason at all under the present legislation why one of the present banks cannot divest themselves of their Canadian shares and become foreign-owned.

Mr. SHARP: Mr. Chairman, perhaps I should add that there is nothing in the act which prevents Mercantile from operating in Canada. What clause 75(2)(g) does is to limit their growth in Canada and they—

Mr. THOMPSON: Well, it is the back door approach of using the club.

Mr. SHARP: In either event there is a club if we say that the National City Bank must divest itself of 75 per cent of its shares. It would take offence to that just as it has to clause 75(2)(g) because it would argue—as it has argued in connection with clause 75(2)(g)—that they purchased the Mercantile Bank with the expection of continuing to be the sole owner.

Mr. MACKASEY: Mr. Sharp, is it not also a fact that—following Mr. Thompson's argument—clause 75(2)(g) would not apply anyway?

Mr. THOMPSON: No. Mr. Mackasey, what you are doing here is applying a discriminatory law against one institution that will force them into a position—

Mr. MACKASEY: —where they will have to become Canadians. It is about time, too.

Mr. THOMPSON: Why do we not come in the front door and put down just what we mean, then?

The CHAIRMAN: Gentlemen, perhaps we could save our debate on this issue for the clause-by-clause stage, which we will probably begin in a few days.

Mr. THOMPSON: May I ask one more question, Mr. Chairman?

The CHAIRMAN: Yes. You have the floor as far as questions are concerned.

Mr. THOMPSON: What is there in the legislation that will prevent a Canadian who purchased shares in a Canadian bank from reselling them to an American or to a non-resident?

Mr. SHARP: There are several provisions in the law that limit this right. They can sell if they wish, but the total of the ownership—I suppose it is of the voting shares—

Mr. THOMPSON: Where is it?

The CHAIRMAN: It is clauses 53, 54, 55 and 56.

Mr. SHARP: The general rule in the act, apart from clause 75(2) (g), is that the total of the foreign ownership of any of our chartered banks shall not exceed 25 per cent, and therefore a transfer made to a non-resident which went beyond that would be in contravention and could not be consummated.

Mr. THOMPSON: Then you are saying that up to 25 per cent it would be possible?

Mr. SHARP: Yes. Except that one individual, in any event, must not own more than 10 per cent.

Mr. THOMPSON: Yes, that is quite clear, but there is nothing to prevent a Canadian from selling his shares to a foreigner or a non-resident providing they do not exceed 10 per cent in the case of any individual or 25 per cent in total?

Mr. SHARP: Providing the total of all the shares held by non-residents does not exceed 25 per cent for that institution.

Mr. GILBERT: I have a supplementary question.

The CHAIRMAN: I will recognize Mr. Gilbert if Mr. Thompson will yield for that purpose.

Mr. GILBERT: Mr. Elderkin, just how do you intend to supervise or police these clauses?

Mr. ELDERKIN: The banks themselves are supposed to police them. They are under penalty if they do not.

Mr. FULTON: Mr. Sharp, while we are considering these amendments which will prevent this bank or any other bank from selling more than 25 per cent of its shares in the United States or any other foreign country, unless my understanding is imperfect would we not have to consider the implications of subclause (g) in respect of the possibility of their getting approval for an increase in their authorized stock and not issuing it? I do not believe there is anything in the Bank Act or the Companies Act or any securities regulations in Canada that requires a corporation, if approval for an increase in its authorized capital has been granted, to issue that capital. Usually that is the purpose for which they get it, but they can leave it in the treasury.

Mr. SHARP: Except, Mr. Chairman, that the increase in capital must be approved by Governor in Council, and therefore the Governor in Council can set the conditions for the increase in capital.

Mr. FULTON: Your precise meaning is that you could say that you would not approve it unless the banks undertook to issue it?

Mr. SHARP: Exactly, and to residents, as I will propose.

An hon. MEMBER: And issue it to residents of Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The mere authorization of a capital increase is not sufficient, the shares have to land in the hands of Canadian citizens?

Mr. FULTON: That is not in the act, Mr. Cameron.

Mr. SHARP: I am suggesting that the Governor in Council can fix whatever conditions he wishes for the increase in capital. I am proposing that one of the limitations which should be in the act itself is that shares cannot be issued to non-residents of a bank which is more than 25 per cent owned by any single shareholder and the Governor in Council can ensure—and I am sure will—if it did authorize an increase in capital that the additional share would in fact be issued.

The CHAIRMAN: This is an administrative procedure which does not have to be covered by the act.

Mr. FULTON: I am sure that would be the intention of the Governor in Council in the spirit of what is being done here, but it is rather awkward because when you require that these shares be issued there are all sorts of things that can go wrong and it would enable the bank it seems to me, to raise a genuine difficulty with you if you are going to require in effect a guarantee that these shares will be issued and sold. How do they know the market will absorb them? They have every reason to expect it—

Mr. SHARP: I can think of one method, and that is to bring forward a firm underwriting contract.

Mr. FULTON: Mr. Elderkin, I may be getting into a pretty binding situation with you here—

Mr. MACKASEY: Is this why you have included the words "rest account" in clause 75 (2) (g) in the bracketed area of total liabilities?

Mr. ELDERKIN: Yes. You understand that "rest account" is actually an accounting phrase that is used almost exclusively by banks. It comes down from an old Scottish term, if I understand it correctly, and in most corporations it is usually referred to as "surplus".

Mr. MACKASEY: My interpretation of it on a balance sheet is that it is authorized shares that have not been issued.

Mr. ELDERKIN: No, not at all. No, it is a surplus. For instance, if we are discussing the Mercantile case, it is the surplus, if you will, that arose out of premium on shares issued over and above par.

The CHAIRMAN: Gentlemen, it is six o'clock. I suggest it would be convenient to recess our meeting now until eight o'clock when I hope we can continue moving along to the amendments which the Minister wishes to suggest. We are recessed until eight o'clock this evening.

EVENING SITTING

The CHAIRMAN: Gentlemen, I think we are in a position to resume our meeting. When we recessed for the supper period, I believe that we were discussing with the Minister under the general heading of agencies and branches some rather interesting related matters regarding the scheme of the bill with respect to foreign banking.

Do we have any further questions on this particular issue? We appear to have no further questions at this point on the topic of agencies and branches and the related issue that we were discussing this afternoon. Before inviting the Minister to tell us about the amendments that he has in mind, I understand Mr. Lambert has a question that he had hoped to deal with this morning but was not able to do so because of lack of certain material; I think, as a courtesy to him we might let him pose it at this time.

Mr. LAMBERT: Thank you, Mr. Chairman. I believe this morning, when we were discussing the definition of banking, Mr. Minister, we had resolved the position to the point that the government would like to limit itself to the present

act which it knows and perhaps venture out into the field of control of near-banks under separate legislation, so that it would not invalidate its main act. I was wondering whether it ever had considered the insertion of this particular clause in the main act—I just ran across this during the dinner hour and I think it might be of interest—which says:

> If any provision of this Act, or the application thereof to any person or circumstances is held invalid, the remainder of the Act and the application of the provision to other persons not similarly situated or to other circumstances shall not be affected thereby.

I would commend that wording to the draftsmen for their consideration just to, shall we say, give further protection if the government should decide to be venturesome enough.

Mr. SHARP: Mr. Chairman, I thank Mr. Lambert. He always makes useful and constructive contributions and this is one that we will certainly bear in mind.

The CHAIRMAN: Mr. Sharp, I believe you have some amendments to tell us about?

Mr. SHARP: Yes.

(*Translation*)

Mr. LATULIPPE: Could I ask another question after this?

The CHAIRMAN: What question?

Mr. LATULIPPE: I have a question with regard to reserves.

The CHAIRMAN: It is the intention of the Committee, after we have heard the Minister with regard to amendments, to continue with our questioning.

(*English*)

Mr. SHARP: I was going to raise that very question, Mr. Chairman. I am in the hands of the Committee. If they would like to raise other matters before I move on to these amendments, I would be agreeable, or if you prefer to follow my suggestions and let me reveal the nature of the amendments that I have in mind, I will do that.

The CHAIRMAN: Yes. I think the Committee already had agreed that we should hear about these amendments so we could have them to look over, even while we are going onto other subjects with you afterwards.

Mr. SHARP: Yes. Perhaps now it is not as necessary as it was to explain the background of the first of these amendments, which I have discussed at some length in connection with our discussion of agencies and the Mercantile Bank.

Briefly, I would propose that there should be included in the bill a clause to the following effect. I am not attempting to draft it because I think that this is for a later stage. I put this forward in principle rather than as a matter to be discussed in its legal form. I suggest that there should be a clause to the effect that where a non-resident owns more that 25 per cent of the shares of a bank, no non-resident may acquire any of such shares or any shares of the bank until total foreign ownership is reduced to 25 per cent.

The CHAIRMAN: Just so that this will be clear, you are not attempting to give us the definitive wording.

Mr. SHARP: No.

The CHAIRMAN: And it is for this reason that you do not have a text to distribute to us at this time?

Mr. SHARP: That is right. I put this forward in principle to make it quite clear that our intention was that shares sold by a bank that is owned to the extent of more than 25 per cent by any single shareholder shall be acquired by residents and not by non-residents. Mr. Elderkin, who was the Inspector General of Banks but is no longer, had pointed out to me that in the course of discussions in the Committee, this loophole in the act had been detected, and I can assure the Committee that it had not been the intention of the government to permit such a loophole to be there.

Mr. LAMBERT: I wonder if either the Minister or Mr. Elderkin have given thought to providing within the legislation some yardstick for the determination of competing claims or competing priorities. In the event that there are concurrent transactions, who shall be entitled to be registered once the bank has been able to reduce the foreign holdings to 25 per cent. I ask this because I think you could get competing claims quite innocently, and I would feel that if there were a statutory yardstick, it would be of great assistance to the banks in determining who should have the priority, rather than they themselves setting up their own particular yardsticks.

Mr. ELDERKIN: Yes, Mr. Lambert; this was considered very seriously because we realize it is quite a serious problem. It is presumed that the way the banks would operate on this is that if the bank was any place near such a limit of 25 per cent, they would notify their transfer agents not to make a transfer without checking it with the main shareholders' list. This they actually do every day; normally they check every day with the main shareholders' list and, I suppose, under those circumstances that it would be first come, first served. There is no way that I know of—perhaps you can think of a way—that there could be priority. I think it is a situation that could come into effect, but I do not know how you would determine which one of the applicants would get priority.

Mr. LAMBERT: Well, somewhere it has to be arbitrary, so why not be arbitrary in the act? Then the banks are taken off the hook as being arbitrary themselves.

Mr. ELDERKIN: No; we thought the banks ought to take that.

Mr. LAMBERT: Surely you are creating the possibility of separate standards in different banks?

Mr. ELDERKIN: When you come to the point where you have two or three applicants to transfer, which might, in total, take the limit off the 25 per cent, there has to be a choice made. There is no other way, that I know, around it. I assure you that we have thought of it very deeply, but I cannot think of any statutory way that you could do it, except first come, first served.

Mr. LAMBERT: Well, say so in the act.

Mr. ELDERKIN: Well, we will let the banks determine it.

Mr. MACKASEY: May I ask a question? Again I stress the fact that I know very little about banking, but presuming someone in the United States owns 8,

10 or 12 per cent of the shares—some mighty man might—and drops dead to-morrow, are you telling me that the shares can only be sold to Canadians?

Mr. ELDERKIN: No. There is a provision in the act for an inheritance.

Mr. MACKASEY: Of course I am thinking of the amendment now.

Mr. ELDERKIN: It is a good point, Mr. Mackasey. I do not think this would obstruct the transfer of inheritance, because inheritance is spelled out in the act. I am glad you raised it, because I would be very pleased to discuss it with the draftsman and the Department of Justice.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Because of my ignorance, I suppose, I am not quite sure how this proposed amendment is going to answer the point that was raised by Mr. Fulton earlier. Or does it? Is the Minister relying on an agreement with, we will say, the National City Bank, if they get authorization to increase the capitalization? I do not see any way in which these shares can be forced out of the treasury of the company.

Mr. SHARP: We are talking about a hypothetical situation, but I could imagine circumstances under which the National City Bank could come to the government with an application for an increase in capital, complete with a firm underwriting agreement to dispose of the shares that would be created by the increased capital.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think this would probably be a prerequisite to action by the Governor in Council.

Mr. SHARP: Yes. I do not want to be held to that, but it certainly is one way in which the government could insure that the shares were in fact sold to Canadians or to residents.

The CHAIRMAN: Are there any further comments or questions.

Mr. LAMBERT: Reverting to the point, I think somewhere an arbitrary yardstick is going to be required. I can think of a case where a bank would stay close to the limit, anywhere between 20 and 25 per cent of foreign ownership, and a substantial Canadian shareholder dies, leaving by wills shares to a non-resident. What then, Mr. Elderkin?

Mr. ELDERKIN: Again it is the point that I think has just been raised by Mr. Mackasey; I think it was well raised and we should look at the question of inheritance. There is a clause in here on inheritance anyway—a freedom of transfer, but this particular amendment that is now being discussed might inhibit that clause and I would like to discuss it with Justice to see that it does not.

Mr. SHARP: One of the reasons that we were a little hesitant at this stage to bring forward a draft was that there might be points to consider that might come out in the course of this Committee's discussions.

The CHAIRMAN: If there are no further questions or comments on the amendment that has been proposed, even though it is only in outline form, I would like the Minister to present the next amendment that he has in mind.

Mr. SHARP: Mr. Chairman, the next amendment, which again I am going to propose in principle, relates to the limitation in the bill upon the right of

chartered banks to own more than 10 per cent of the voting shares of other corporations.

Mr. FULTON: Clause 76?

Mr. SHARP: Yes. We have been giving very careful consideration to this clause in the light of the comments made in this Committee and also made to the government directly by the banks. We are particularly concerned about the effect that this clause might have upon certain institutions like RoyNat, Kinross and UNAS, the three leading examples of enterprises owned by the banks which have been carrying on a business, not in competition with the banks, but supplementary to their other activities. So far as I have been able to learn, these institutions have been doing a useful job of work.

It must be said, however, that when this bill becomes law, the banks will have much less reason to continue to work through institutions like RoyNat or Kinross than they have now. In some respects, RoyNat and Kinross were created because the bank's powers, particularly in the mortgage field, were very limited. Now, it might be that there would be no harm in limiting the banks to 10 per cent of the voting shares of all corporations including that class. On the other hand, the government does not want to make proposals that have an unnecessarily limiting effect upon a useful activity being carried on by the banks through these institutions. So I am proposing that in principle amendments should be made which accomplish the following: that a bank may not hold more than 10 per cent of the voting shares of a Canadian corporation accepting deposits from the public—that represents no change from the intent of the bill; and may not hold more than 10 per cent or $5 million, whichever is the greater, of the shares of any other Canadian corporation.

The effect of the acceptance of this principle would be to enable the banks to continue with their investments in RoyNat, Kinross, and UNAS, but would place some limitation upon their expansion, and would also enable the banks, if the occasion arises, to make relatively small investments in corporations if that happens to be a necessary consequence of their ordinary banking business. This follows, generally speaking, the recommendations of the Porter Commission in this respect. The Porter Commission, I think, said $10 million or $5 million. We believe that all that is necessary by way of exemption is $5 million.

Mr. MACKASEY: In other words, Mr. Sharp, RoyNat does not accept desposits and, therefore, it wou'd be exempt that way, but because of the $5 million clause or the 10 per cent clause, its growth would be limited to a level which you think is desirable.

Mr. SHARP: Perhaps I should clarify that point. The growth of RoyNat would not be limited, but the investment of a bank in RoyNat would be limited.

Mr. MACKASEY: I am sorry; knowing RoyNat I would have never known there was a difference, but there could be in the future, in other words.

Mr. LAMBERT: Mr. Sharp, I take it that this would apply to both portions of clause 76, both in the domestic and the non-Canadian corporations.

Mr. ELDERKIN: The non-Canadian corporations are controlled only to the extent that they control Canadian corporations. If you are looking at clause 76(2), this is really only to cover a loophole, Mr. Lambert. If it was not there, all

they would have to do, was to invest in a holding company in the United States and evade the whole clause. So it applies right through.

The CHAIRMAN: Are there any other questions about this proposed amendment?

Mr. LAMBERT: Did I not hear you say that it would apply to any other Canadian corporation, so if subsection (2) applies to non-Canadian corporations, the amendment would not apply to subsection (2).

Mr. ELDERKIN: To the extent that they hold in Canadian corporations.

Mr. FULTON: Mr. Chairman, I would think that the committee would wish to know what the effect is of the second part of the proposal,

> and may not hold more than 10 per cent of $5 million, whichever is greater, of the sares of any other Canadian corporation

because, I confess frankly that at the moment I do not know what the capital structure of RoyNat is. It is before us somewhere, but at the moment I do not have it in mind. What is the effect.

Mr. ELDERKIN: The $5 million will exempt RoyNat and Kinross.

Mr. FULTON: What about UNAS?

Mr. ELDERKIN: And UNAS. You see, whichever is greater, Mr. Fulton, and the $5 million will exempt all three.

Mr. FULTON: Yes, I appreciate that.

Mr. SHARP: But it is not so large that it will permit too large an increase in the investment of these banks in these institutions, because we do not believe that with the enlarged powers of the banks these corporations need be used as extensively as they have been in the past.

Mr. FULTON: Possibly so. What I am concerned about, and I am sure you are too, Mr. Sharp, is the avoidance of compulsory divesting of shares, which brings great problems on the market.

Mr. ELDERKIN: There would be no divesting in the case of the ones that are mentioned. There would be in the case of some of the holdings of the trust companies, because in the first part of the amendment which the minister has put forth, there is no exemption from the 10 per cent in the case of the deposit-taking institutions.

Mr. FULTON: No. I will come back to that, but I am dealing with the second part. The three companies named are presented with no immediate problem except with respect to expansion.

Mr. ELDERKIN: That is right.

Mr. FULTON: And then they will know what their terms of reference are.

Mr. ELDERKIN: That is right.

Mr. FULTON: Coming back to the first part of the proposed amendment, we have had difficulty before about naming the particular companies. Mr. Elderkin, are you in a position to give us a general idea of what is involved?

Mr. ELDERKIN: The first part of that proposal would affect possibly three investments, but may I mention, as you know probably, Mr. Fulton, that they

have five years and a possible two years further to divest themselves, and these all would be ready-marketable stocks.

Mr. FULTON: Stocks now freely traded on the exchange.

Mr. ELDERKIN: That is right. And, in effect, they have probably seven years to bring themselves into line.

Mr. MACKASEY: May I ask a supplementary question. This amendment does not have a date in it. In other words, theoretically could RoyNat go beyond this area and come back by 1971?

Mr. ELDERKIN: The date will be effective from the time that the act comes into force.

Mr. MACKASEY: I am just looking at the date in clause 76(1), which is July 1971.

Mr. ELDERKIN: That would be the divestment section which would apply in the case of investments in deposit-taking institutions, I would say, where the investment is now in excess of the 10 per cent.

Mr. MACKASEY: In other words, if this amendment comes into force with the Bank Act, and RoyNat gets up to $5 million—I am using this as an example—they stay there.

Mr. ELDERKIN: It is exempt right away.

Mr. SHARP: But they could never enlarge their investment beyond $5 million—any particular bank.

The CHAIRMAN: With respect to the definition of deposit-taking institutions, what about a body that takes money from the public through selling some secure type of debentures and reloans the money it takes in in that way through mortgaging?

Mr. ELDERKIN: Mr. Chairman, you are raising a very difficult question, which you will have to face on deposit insurance when it comes to a definition of deposits.

Mr. SHARP: This is one of the reasons that in the legislation we have left considerable discretion to the Governor in Council.

Mr. MONTEITH: It has been mentioned that Kinross, RoyNat and UNAS are exempt because of this amendment. What other institutions are going to be affected by it? Is that a fair question?

Mr. SHARP: This was the burden of the question that was put to Mr. Elderkin.

Mr. MONTEITH: Yes, but I do not have any details as to who they are.

Mr. SHARP: There are three deposit-taking institutions.

Mr. MONTEITH: Is there any reason why we could not have their names.

Mr. SHARP: I do not know how much of this is public knowledge. Mr. Elderkin has knowledge that he gains as a result of his official position.

Mr. MONTEITH: Well, we have bandied about RoyNat, Kinross and so on.

The CHAIRMAN: There is a slight distinction there in that the various banking spokesmen came before us and made specific reference to RoyNat and

Kinross and asked for some relief, whereas I am not sure whether we got into specific details with relation to specific trust companies.

Mr. MONTEITH: In other words, we are taking care of those that have asked for relief, but we are not doing anything about those that may not have.

Mr. SHARP: Perhaps I should explain again, Mr. Chairman, that I do not think there should be any change in the fundamental principle underlying this bill, which is that the banks shall not be shareholders in any competing institution, and deposit-taking institutions compete with the banks. One of the principles of this legislation is to make the banks independent and to promote competition. We are not proposing any change in that respect in the amendment that I have proposed here. RoyNat, Kinross and UNAS are not deposit-taking institutions. They are not carrying on a business in competition with the bank, but a business supplementing the banks. These institutions were created because the banks found them a more convenient way of doing certain kinds of business, partly because of the limitations contained in the act as it now stands.

We are now enlarging the powers of the banks to enable them to do many of the things that RoyNat and Kinross are doing—UNAS is in a rather different category. We see no reason to force the banks to divest themselves, nor do we seen my reason for the banks to enlarge their activities. I might point out that one of the reasons I say that, is that it was possible for RoyNat and Kinross, for example, to issue debt with which they financed their activities. We are now giving the banks powers to issue debentures, but limited powers. We would not want Kinross and RoyNat to be used as a means of avoiding the restriction that is contained in this bill before you, which limits the powers of the banks to issue debentures.

Mr. MONTEITH: May I ask a very simple question. What has caused you to change your mind?

Mr. FULTON: Perhaps the questions asked in this committee.

Mr. SHARP: Yes; many of the representations here have made us look more closely at the general rule.

Mr. MONTEITH: May I congratulate you, Mr. Sharp.

Mr. SHARP: I am a very fair-minded man, and it is a very fair-minded committee.

Mr. MACKASEY: Mr. Sharp, would CED be one of the firms that you do not want to mention?

Mr. SHARP: What is CED?

Mr. MACKASEY: It is Canadian Enterprise Development Corporation.

Mr. SHARP: No.

The CHAIRMAN: If I may make a comment, I personally do not think that anything so terrible would evolve if the names were mentioned, but I think that when we had the bankers' Association before us and they were making general submissions and the question arose to what extent the names of these institutions that might be involved if this amendment carries should be divulged, the argument was made to us, and I think Mr. Fulton, in particular, if my memory does not fail me, either made the point or helped bring out that to disclose them at

this time might be harmful to the maintaining of an orderly market for the shares of these deposit-taking institutions. I make this comment because I personally do not think that anything so terrible is involved in divulging the names, but I think that you yourself made the comment several months ago that it might involve some unfairness.

Mr. FULTON: If you remember, Mr. Chairman, my first inclination was to say that this committee cannot deal with these proposals unless we know precisely what is involved.

The CHAIRMAN: That is right.

Mr. FULTON: We were told, I think in public evidence, that if the bill carries in its present form, there might be certain compulsory divesting of shares, and that those who are concerned in that matter therefore were reluctant to identify the companies by name because the bill before us—and they had no reason to assume that it would not carry—was going to compel them to market those shares and they did not want to have an artificially depressed market. I think we are on the horns of a dilemma here.

The CHAIRMAN: That is right.

Mr. FULTON: Some of us may feel that this provision is ill-advised, ill-conceived. On the other hand, we may also feel that it is going to go through whether we like it or not, and therefore we do not want to make the position of those companies any worse than it otherwise is.

Mr. MONTEITH: I suspect that Mr. Fulton is cautioning both Mr. Mackasey and myself.

Mr. FULTON: I would like to think it over overnight. The minister has indicated how far he is prepared to go and, therefore, that remains a matter of government policy. The maximum 10 per cent holding in the other types of companies, the deposit-taking institutions, remains government policy. I would like to think about it overnight and decide whether we are going to force disclosure of those who are affected or not.

The CHAIRMAN: In fairness to the bankers' association, again, if my memory does not fail me, I do not think they were, in a sense, refusing to divulge information; they probably were going to do so but they brought to our attention the possibility that you have mentioned. Up to now we have not insisted on that particular point. So we might think about it as we continue. Are there further questions with respect to this?

Mr. LIND: With regard to the expansion of the base of RoyNat and Kinross, can they not issue additional debentures? There is no limit to that, is there?

Mr. SHARP: No.

Mr. LIND: Do you limit their capital stock?

Mr. SHARP: Yes. What we are doing here is limiting the investment of a bank in one of these institutions. We have no objection if RoyNat and Kinross continue to grow by bringing in other shareholders, but we did not feel that the investment by a bank should grow without limit nor did we feel there was any reason to compel the banks to divest themselves of these shares. These institutions are performing a useful function. We believe that it will be a less useful

function in the future because the banks will be able to do directly what they are now doing indirectly through these bodies.

Mr. LIND: There is no limit on the amount of debentures, so both companies can grow?

Mr. SHARP: They can gwo, yes, and of course they can acquire other shareholders if they wish.

Mr. LAMBERT: Mr. Sharp, I am concerned about clause 76(2) and I would like to have some reassurance that this would not preclude the ownership by two or perhaps three of the Canadian chartered banks in non-Canadian corporations incorporated in one case in Jamaica and in the other case in the Bahamas, and I believe another one is maybe somewhere in the Caribbean islands, for the purpose of carrying on some of their banking operations both in the Caribbean and in South America.

Mr. ELDERKIN: Mr. Lambert, if you carry through subsection (2) it only refers to corporations holding shares of a Canadian corporation.

Mr. LAMBERT: Yes, but take for example, the Bank of Nova Scotia, that is going so well now. It is re-organizing its holdings in Jamaica and is bringing in some local ownership and local capital, yet it will have more than 10 per cent of that Jamaican corporation, which could hold in its portfolio or otherwise, the entire stock of a Canadian corporation.

Mr. ELDERKIN: Then this provision would take effect then, since the Bank of Nova Scotia can control that, and see that it does not.

Mr. LAMBERT: See that it does not acquire those shares of a Canadian corporation.

Mr. ELDERKIN: Yes, in excess of the 10 per cent.

Mr. LAMBERT: Oh, but what about this "and $5 million".

Mr. ELDERKIN: Oh yes; this would have to be adjusted too.

Mr. LAMBERT: I see; that answers it.

Mr. ELDERKIN: The minister is only presenting a principle here. It will require a couple of amendments.

Mr. LAMBERT: This is the thing that I was worrying about.

Mr. SHARP: This is another of the reasons that we are only presenting this in principle.

The CHAIRMAN: Are there further questions?

Mr. FULTON: There are some companies, I think, quite recently set up by the banks, as referred to by the Porter Commission report; Canadian Enterprise Development Corporation Limited and Charterhouse Group Limited. These were mentioned publicly already. What will their position be under the principle of the amendment proposed?

Mr. ELDERKIN: I think, since they have been mentioned publicly, that neither one of the banks in these cases hold more than $5 million or 10 per cent. They probably would be exempt because they are not deposit-taking institutions, and as an investment, I think, under the proposal that the minister has put forth they would be in an exempted class. I could mention one other because it just

recently appeared in the paper, namely Holborough Investments, which is a Bank of Nova Scotia association with an aluminum company and Greenshields & Company on the financing of prefabricated houses. I can mention that because it is in the *Financial Post* of this week.

Mr. FULTON: It is not intended then to prevent banks, in association with others, from launching this kind of corporation provided they stay within the limits mentioned in part two of your proposal?

Mr. SHARP: That is right.

Mr. MONTEITH: Does this mean there can be new launchings provided they are within these limits?

Mr. ELDERKIN: That is right.

Mr. SHARP: We see no reason to prevent other banks from having a Roy-Nat-type of operation if they feel that it is useful to them in carrying on their business, although we doubt whether it would be.

Mr. MACKASEY: You want to make sure that the chartered banks do not do through the RoyNats what you are preventing them from doing in the bill?

Mr. SHARP: That is right.

Mr. FULTON: When we get down to the section in detail we will have further opportunities to discuss it with you and you will undoutedly have further thoughts, but again one is tempted at least to ask why these limits of 10 per cent or $5 million, which are fairly small you know, in terms of Canada's growing economy?

Mr. SHARP: Our view was that we did not want to make the figure any larger than necessary because the underlying principle of the legislation is that the bank shall carry on a banking business and not go into other business directly or indirectly. We did feel that the $5 million was enough to make it unnecessary for the banks to divest themselves of any of these corporations, but it did not permit them to carry them on to an unlimited extent. The selection of $5 million was purely empirical in the light of what we knew about the investments of the banks.

Mr. FULTON: In other words, Mr. Sharp, I would not be drawing too long a bow if I say you looked at the existing situation and said that you would just set it high enough so as not to force anybody who is now in that position to divest themselves.

Mr. SHARP: And to enable others who maybe have not ventured into this field to carry on operations and to make an investment, if they wish. For the benefit of a member who is not here now, it was another of the Porter Commission recommendations.

Mr. FULTON: They did not set any limitations, did they?

Mr. SHARP: Yes. They said either $10 million of five—

Mr. FULTON: There is quite a difference between those, to my way of figuring.

The CHAIRMAN: It would appear that we are in a position to ask the minister to propose for our consideration the third amendment he had in mind. I believe

there are copies of the third proposed amendment and I will ask our Clerk to assist us in distributing them among the members.

Mr. SHARP: Mr. Chairman, this is a much longer amendment. It carries out an undertaking I made in the House on second reading of the bill, when I said that the government intended to propose amendments to the bill to provide for the disclosure of the costs of loans, both the true rate of interest and the dollars and cents cost. These amendments that have now been distributed to you have been discussed with the provincial representatives. As you may recall some weeks ago I convened a meeting in Ottawa of the provincial ministers concerned on the subject of consumer credit. We have been urging the provinces to bring in uniform legislation to require the disclosure of rates of interest on consumer loans in general, and we said for our part we were prepared to require the same disclosure of those institutions over which we had control, namely the chartered banks. Members of the committee may recall there was some dispute in Nova Scotia as to the right of the province of Nova Scotia to apply its laws to the chartered banks. I will say now that I said to the Nova Scotia minister during our meetings that it was the firm intention of the government to require disclosure by the chartered banks and that I did not think it would be necessary for him even to attempt to apply Nova Scotia law to the banks.

So this legislation carries out that undertaking; I think it speaks for itself and if it does not I am sure that there will be questions.

The CHAIRMAN: Perhaps we can just take a moment to look it over and then I will invite questions from the committee. Mr. Lambert, are you ready to begin?

Mr. LAMBERT: I am wondering how the regulations are going to be able to describe beforehand what shall be a per annum rate of the cost of borrowing on a demand loan.

Mr. ELDERKIN: That is an exceptionally good point, Mr. Lambert, and is one reason the minister is given discretion in these proposals to make regulations regarding the specification of any class of loans or advances that are not to be subject to the provision of this amendment. I might tell you this is a similar provision to that which appears in the Nova Scotia act and in the Ontario act. On a demand loan a bank could quote a rate of annual interest but if could not quote a dollars and cents charge because you do not know how the loan will fluctuate from time to time so you do not know what the cost is going to be. So demand loans under these circumstances, by regulation, it is assumed, would have to have the rate per annum specified but could not have the dollars and cents specified.

Mr. LAMBERT: Nor could it have specified as a percentage, any additional charges that are specified here.

Mr. ELDERKIN: That is correct.

Mr. LAMBERT: It is true that it can be assumed on the basis of one year.

Mr. ELDERKIN: That is all. You can only assume what the rate would be if it was carried on for one year without change.

There is also another point here that falls into that same classification, which I might explain. It is the question of what the banks might call voluntary overdraft; that is, where a charge comes in against the customer's account, a

cheque or a draft, and there is not sufficient money to pay it. The bank, rather than turn that back, not being able to get in touch with the customer at that time or maybe not having him come in until the next day to cover it, says that it will pay it. There is no possible way of saying in advance what the rate of interest is on that particular item. So that is another one of the possible exemptions that have to come under a situation like this.

The CHAIRMAN: Do we have other questions at this point?

Mr. MACKASEY: Could the banks not return to the overdraft system?

Mr. ELDERKIN: Far from it. I do not think the banks would consent to that at all. However, sometimes the banks will permit overdrafts for good customers where, perhaps through no fault of their own something has come through as a charge and they have not yet covered it.

Mr. MONTEITH: Would not be banks be glad to go back to the overdraft system if they were in true competition?

Mr. ELDERKIN: I think you perhaps had better address that question to the banks.

Mr. FULTON: Well, they must be in true competition because they encourage me all the time.

The CHAIRMAN: Mr. Cameron, you are next.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Elderkin, I do not quite recall, because it is some time since I read the Nova Scotia legislation, but does it have a section in it equivalent to clause 6 in this amendment?

Mr. SHARP: No, clause 6 can only relate to a bank.

Mr. ELDERKIN: Clause 6 is a transfer actually from present Section 93. The draftsman felt in doing this that it was better to put all of the question of charges into one section. It is a much easier piece of drafting and a better reference. So you can see in the conclusion of this particular draft which they have put forth, that there has been a transfer of what is presently 92 over into 93, and what is presently 93 back into this 92. This is only a question of drafting.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I realize that, Mr. Elderkin. It occurs to me though that clause 6, the proposed amendment of the idea in the original bill, somewhat negates the purpose of this disclosure.

Mr. ELDERKIN: You mean by asking for express agreement?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, permitting, shall we say, a private arrangement between the bank and its customer—perhaps not negate the disclosure, but—

Mr. ELDERKIN: It does not negate the disclosure at all, but it does require —as a matter of fact, the balance of it requires disclosure—but it does require the express agreement of the customer to the charge.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And it has to be expressed in terms of an interest rate, does it not?

Mr. ELDERKIN: It has to be expressed entirely in terms of the agreement, whatever exists. This is exactly the same as the present act in clause 93 (3), the one which you will remember, Mr. Cameron, was proposed by Mr. Coote in 1934.

Mr. SHARP: I might add, Mr. Chairman, that these proposed amendments relate specifically to the question of disclosure, not to the question of regulation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I know that.

Mr. SHARP: During the discussion with the provinces, it was decided that the first and most urgent problem was to give the public an opportunity of knowing what they were paying before any attempt was made to decide what maximum charges might be appropriate. This was agreed upon as representing an orderly evolution in our laws.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Will clause 4 govern clause 6?

Mr. ELDERKIN: Yes, without a doubt.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have the expression in terms of an interest rate as well as in absolute terms of dollars and cents.

Mr. FULTON: Could you indicate to us, Mr. Sharp, in general terms the class of transaction which you contemplate as being included in the words in subclause (3) of the proposed amendment "or otherwise as prescribed." A little further along you say: "Does not apply in respect of any class of loans or advances that are prescribed as not being subject to its provisions." Can you answer in general terms?

Mr. ELDERKIN: I answered that a few minues ago, Mr. Fulton.

Mr. FULTON: I am sorry, Mr. Elderkin; I was no doubt reading the clause.

Mr. ELDERKIN: I answered a few minutes ago that we would have to case of demand loans. Some part of them you could not calculate, or you could not state what the dollars and cents cost would be, you can state the rate per annum. We have the case of what I called a few minutes ago of voluntary overdrafts. You could not possibly state that—

Mr. FULTON: That is where I perked up my ears, when I heard that.

Mr. ELDERKIN: —because there is no advance arrangement on it; it is a voluntary service that the bank has. This is the sort of thing that must be left to the Minister to prescribe. In the Nova Scotia act and the Ontario act, a similar provision exists where there is possibility for exemption of any class of loans, by the Governor in Council. In Nova Scotia they do not refer to the Lieutenant Governor; they refer to the Governor. The Lieutenant Governor in Ontario has the power to exempt any classes.

Incidentally, Mr. Fulton, you will also see that this must be done by regulation.

Mr. FULTON: Yes.

Mr. ELDERKIN: And regulations must be published.

Mr. FULTON: I appreciate that, but I was looking for information before we approve the amendment. I would like to thank you for your explanation. Will you tell me the implications of the other words: "of otherwise than under a credit."

Mr. ELDERKIN: If you look up above, a credit means an arrangement for obtaining loans or advances. There may be no advance arrangement, it may be

just a question of an immediate loan being made. There is no advance arrangement so to speak; no written arrangement, if you will, of any kind, it is just a note signed and that is all. This is perhaps just terminology, but this is the closest I can come to explaining the view that there does not necessarily have to be an advance contract of any kind at the time.

Mr. FULTON: In other words, do I understand correctly that the implication of these words and the definition up above that you go to a bank and make an arrangement by agreement, and you may come to an agreement on a higher interest rate, that is an arrangement for a credit, and that is exempted then from the statutory provisions as to disclosure?

Mr. ELDERKIN: Oh, no, it is not. You can have two situations. You might make an arrangement for a credit which, extended over a year, we will say, is for a line of credit as it is commonly known in the banking circles, and in establishing that line of credit, you make your arrangement about what the cost is going to be.

Mr. FULTON: Yes.

Mr. ELDERKIN: Now, another situation may be that you walk into a bank and if the manager is feeling generous that day, you will say: "Will you lend me $1,000," and he does, but you do not establish a line of credit, so to speak, as it is used in the common sense; you just get a loan on that day. He has to disclose at that time what he is going to charge you.

Mr. FULTON: Yes. But where you have gone and made an arrangement for a line of credit, the interest rate is contained in that arrangement.

Mr. ELDERKIN: That is right.

Mr. FULTON: And therefore, it does not require this—

Mr. MONTEITH: Does this include all charges?

Mr. ELDERKIN: That is right, all charges applicable to the loan.

Mr. MONTEITH: To that particular loan?

Mr. ELDERKIN: That is right.

Mr. MONTEITH: I am sorry to interject, Mr. Fulton, but I do not have a legal mind and cannot assimilate all this as quickly as some of these lawyers, but what does this amendment mean in a nutshell as far as disclosure of interest rates goes?

Mr. ELDERKIN: Disclosure of cost of loan. You have two factors in many loans, and particularly in the consumer credit field, and almost entirely in the consumer credit field. You have a factor of interest and you have a factor of service charge; where loans are paid on an instalment basis, this is usally the case. It means that when the borrower buys under a consumer credit loan, the the bank must state to him, not only the interest they are charging him, but the service charge they are charging him on the total loan, and translate that into a rate of cost.

Mr. FULTON: A rate of what?

Mr. ELDERKIN: A rate of cost. I cannot say a rate of interest; it is the rate of cost of the loan.

It is not specified here, but it will be specified in the regulations that on the recommendation of the Department of Insurance, they propose—and the Minister will propose if this comes into effect—one of five accepted rates. The one which the Department of Insurance wishes to use and which I think both Nova Scotia and Ontario wish to use is the so-called nominal annual rate. You will remember possibly, if you read the evidence before the Ontario committee on this particular subject, that the banks expressed themselves as being quite willing to disclose this cost, if someone would tell them how to compute it. There are actually five actuarial ways in which this can be done. By regulation the banks will use a certain method of doing this.

Mr. SHARP: May I add to this, Mr. Chairman. During the discussions with the provincial ministers which I had the privilege of chairing, there was a long discussion about the alternative method of calculating the annual rate. The nominal annual rate was preferred, because it was more easily understood, and although it was not precisely a true interest rate, it was so close an approximation that to all intents and purposes, as long as it was being used generally, it gave the borrower a very good idea of what the true cost of his loan was.

The CHAIRMAN: Are you through, Mr. Fulton. Mr. Clermont is next.

Mr. FULTON: No, Mr. Chairman, Mr. Sharp, are you able to tell us to what extent you anticipate that the finance and loan companies will come into conformity with this, leaving out my idea of bringing them under your umbrella; apart from that, what will be the effect here?

Mr. SHARP: The provincial legislation will, so far as I know, regulate the disclosure of the annual cost of all consumer loans. In some provinces attempts will also be made to obtain a disclosure of the annual cost of instalment purchases from other than financial companies, but this is a matter that must be regulated by the provinces. If it were a matter of regulating interest rates, that would be a different matter, but as far as disclosure is concerned, the field can be covered effectively by the provinces. That is why it is so important that all provinces should move in step if possible.

Mr. FULTON: And your impression is that the major provinces are prepared to move this way?

Mr. SHARP: Indeed, Nova Scotia now has a very effective law in force. Ontario has a law approved, but it has not been proclaimed as yet. It is their intention to proclaim very quickly. All the provinces said that they would move to do likewise, and as I recall the conversation most of them are going to model their acts upon Nova Scotia and Ontario, except the province of Quebec, which has special problems arising out of its system of laws.

Mr. ELDERKIN: There is no such thing as a chattel mortgage in the province of Quebec.

Mr. FULTON: We can pursue this on another occasion.

(*Translation*)

The CHAIRMAN: Mr. Clermont.

Mr. CLERMONT: Mr. Elderkin will these proposed amendments have effect for loans granted to consumers?

(*English*)

Mr. ELDERKIN: Yes.

(*Translation*)

Mr. CLERMONT: Will this increase their costs or reduce them?

(*English*)

Mr. ELDERKIN: I do not think this will have any effect on whether the costs are increased or reduced. It is a question of disclosure of what is being charged.

(*Translation*)

Mr. CLERMONT: Clause 92 (6) states:

"The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer."

This is the point ot which I would have particular reference: "except by express agreement between the bank and the borower, shall the making of a loan or advance . . ."

(*English*)

Mr. Elderkin, as article 6 is proposed, would it have anything to do with what we call compensating balances?

Mr. ELDERKIN: Yes, the last part of it, Mr. Clermont. The first part of it is simply a carryover from subclause (3) of clause 93. There is no change in it. If you look at the bill and the present act, subclause (3) of clause 93, the wording of the first part of this clause 6 is the same.

Mr. CLERMONT: But I thought, Mr. Elderkin, that there was no such thing as compensating balances for a loan.

Mr. ELDERKIN: Well, we are just saying that it is stated that there is.

The CHAIRMAN: Parliament is supreme.

Mr. CLERMONT: That is fine, Mr. Chairman.

Mr. MONTEITH: It has not been for some years.

The CHAIRMAN: There has been a great improvement since the Liberals took office!

Mr. MONTEITH: It is getting worse.

Mr. LIND: This also would have to reveal the true rate of interest for commercial loans?

Mr. ELDERKIN: Yes, well, to individuals.

Mr. LIND: Not to corporations?

Mr. ELDERKIN: This whole thing is based on the individuals exactly the same as the provincial does. These are to individuals.

Mr. SHARP: It is assumed that corporations understand how much they are paying for money.

Mr. ELDERKIN: Then the corporations are always in a position to require it, anyway.

The CHAIRMAN: Mr. Elderkin, if I might pursue a point raised quite effectively. I think by Mr. Lind; there are many businessmen who are incorporated to get certain tax advantages and really they are almost in a sense carrying on a sole proprietorship, except they have adopted the benefits of the corporate form; they are not really much different from the individual who has not gone to a lawyer and used his services to ake out a corporate charter. To what extent is that taken into account in these proposals?

Mr. ELDERKIN: I can only answer that one, Mr. Chairman, by saying that this whole process, started, particularly in the provinces, on the basis of consumer loans. Consumer loans are always to the individual. We have really gone beyond consumer loans in this proposal in that we have picked up commercial loans as well, and even mortgage loans that may be made to an individual; but we have not in this particular proposal nor have they in the acts of Nova Scotia and Ontario, endeavoured to control disclosure to corporations. They felt that if they went to individuals that was as far as it was desirable or necessary at the time. I simply repeat what I said a minute ago to Mr. Lind that there was no reason in the world why the corporate borrower cannot require it. He has the right to require it if he wants it but the act does not force the banks to do so.

The CHAIRMAN: I was just going to leave this with you for consideration as we pursue our study of this legislation, that perhaps the reason for the provincial stand was that they have no authority to regulate commercial lending by banks so there is no need to—

Mr. ELDERKIN: I do not think that this is really a propos. It is disclosure, not regulation.

The CHAIRMAN: I should say it is to regulate disclosure.

Mr. ELDERKIN: Well, they say they have.

The CHAIRMAN: Of commercial loans by banks?

Mr. ELDERKIN: Anything. They claim they have a right to regulate disclosure.

Mr. SHARP: But Mr. Elderkin is not saying that he agrees with that constitutional interpretation.

Mr. ELDERKIN: No.

The CHAIRMAN: Because the banks told us the other day that the reason they were resisting the Nova Scotia law was that they preferred to be under the jurisdiction of the federal statute. But I just wanted to leave for your consideration—

An hon. MEMBER: It is very healthy.

The CHAIRMAN: That is right. —the situation where you have one small businessman who is a sole proprietor and you may have his neighbour in the same business and no bigger sized business who has adopted the corporate form, and the sole proprietor will have certain opportunities under this law with respect to disclosure which the fellow who has adopted the corporate form will not have.

Mr. ELDERKIN: Well, I can only say to that, Mr. Chairman, that the one who has adopted the corporate form can abandon it.

The CHAIRMAN: But he does not have the—

Mr. ELDERKIN: This would bar them. He does not have to demand them.

Mr. MACKASEY: They treat you as an individual anyway, if you are a small corporation. You get a personal endorsation.

The CHAIRMAN: The only point I am making is that the individual who has not adopted the corporate form, the individual small businessman, has the sanction of the law behind him.

Mr. SHARP: Well, Mr. Chairman, your comments may be quite valid and will be looked at. It should be recalled that the purpose here is to protect the individual who, until now, has not been in a position to make a calculation of what the cost of the money that he borrows really is. He has often been grossly misled and in the provinces and here in the Bank Act we are proposing to protect the individual. It is assumed that people who are in business must know exactly what the cost of money is to them, and must work it out very carefully in order to make business decisions; whereas the consumer who is buying an automobile, or is buying some durable, or otherwise borrowing money, is often in the position that he thinks he knows how much it is costing him, but doesn't really know.

Mr. MACKASEY: Mr. Sharp, what you are saying is that if two people walk into the bank tonight, Mr. Fulton, can get 1,200 dollars, I am sure, from the bank, say at 6 per cent and walk in a year later, and the true disclosure will be 6 per cent. The next person, before he gets out of there leaves the first month behind him, which is $100. Then on the first of the month he walks in and deposits another $100. But you are saying that we finally reveal to the public what they are really paying which is a great deal more than 6 per cent.

Mr. SHARP: Exactly.

Mr. MONTEITH: Would it be under $7\frac{1}{2}$ per cent under the new legislation?

Mr. ELDERKIN: No, of course not.

Mr. MONTEITH: Must this disclosure—

Mr. ELDERKIN: No, because when you are talking about the $7\frac{1}{4}$ per cent or whatever per cent comes out of this, you are talking about interest only. Here we are talking about a combination of interest and service charges.

Mr. MONTEITH: Well, does not section 91 of the Bank Act, more or less limit you to $7\frac{1}{4}$ per cent?

Mr. ELDERKIN: Of interest.

Mr. FULTON: Mr. Chairman, if I may, I fail to appreciate why this is mandatory in the case of the individual and optional only in the case of the corporation, whether it be large or small. Since so much of the small loans business in the field we are talking about, now is carried on with the private companies, I really fail to see why you make the distinction between statutory disclosure to individuals and corporations.

Mr. SHARP: Mr. Chairman, if I may, this is a matter the Committee might like to consider. We have drawn up these amendments for the primary purpose of protecting the individual by requiring the lender to reveal the true cost. It is

assumed, in the case of people who are in business, that before they borrow any money they make sure how much it is going to cost them and in the nature of their business they have either to calculate it themselves or to ask the bank how much it is costing them. The individual, as we know, does not do this, and at least a good deal of the advertising about the cost of loans is misleading. The purpose of these regulations is to make it impossible for the individual to be misled.

Mr. FULTON: Could we stand this over the course of the next few days and decide whether it should be extended or not. I get your point.

Mr. MACKASEY: This will hurt the small proprietor in the event that the bank had the choice between lending its money to him and a corporation and not going through the problems, and the bookkeeping, of revelation to which the individual is subject. It seems to me that it would work against his interest in the long run. Most bank managers are tough on a Friday morning, about eleven o'clock, when you want your payroll, as it is.

The CHAIRMAN: Do you want to respond to Mr. Mackasey's point? Then I will recognize Mr. Lambert.

Mr. SHARP: No. I think Mr. Mackasey was just making a comment.

Mr. MACKASEY: No. I hate to see the differentiation because it seems to me that everything being equal the bank will then try to evade this particular application wherever possible by loaning their money to corporations rather than to individuals. I think this will happen in the small centres, not the big centres.

Mr. LAMBERT: Mr. Chairman, I think it is an accepted practice in the case of the small corporations; they usually ask for a personal guarantee, and in the regulations that may be made here the Minister might require that in the case where a personal guarantee is taken on a loan to a corporation the true interest rates, the true cost of borrowing shall be disclosed under the terms of the personal guarantee.

Mr. ELDERKIN: It is possible. I would want to discuss it with the draftsman.

Mr. LAMBERT: And that therefore, this would tend to protect the small businessman who is incorporated; whereas if you are a large corporation presumably you have had people who are prepared to really consider the cost of the borrowing.

Mr. ELDERKIN: If I might get back to Mr. Mackasey's comment a minute ago, I think that out of this, Mr. Mackasey, will come quite complete tables, which in effect, as far as the bank manager is concerned, will give him very little difficulty in computing this, just the same as today they all have tables on consumer loans and they only have to look up the amount and the terms and they have their answer. It is not going to, or should not, really result in very much additional work to the banks at all.

Mr. CLERMONT: May I ask a supplementary question, Mr. Chairman. It is supplementary to Mr. Fulton's question. Why do you include associations in the application, corporations partnership and associations.

Mr. ELDERKIN: The reason for that, Mr. Clermont, is there have been so many legal decisions that the word "individual" is not in itself sufficiently defined in all cases of law, and so what they were doing here was really by elimination getting it down to what we consider an individual.

Mr. FULTON: Is this new amendment supposed to cover the case of what we describe normally as consumer loans, because it is not so expressed, Mr. Elderkin.

Mr. ELDERKIN: We thought it was not necessary to mention consumer loans; in discussing this with the provinces we stayed away from consumer loans because in here we are not only covering consumer loans, we are covering mortgage loans.

Mr. FULTON: Then, Mr. Mackasey and I, I think are on common ground. Many small corporations will want precisely this type of loan. If this was an individual going in to buy a stove or a refrigerator for his house—good—excellent, but why confine it only to that?

Mr. ELDERKIN: You are asking, why confine it only to individuals. This is what the Minister said a minute ago that the Committee might consider.

Mr. SHARP: I would suggest that the primary purpose of these amendments is to require the disclosure of, as close as you can get to it, the true annual cost to individuals. But the point that you have raised is that there are some corporations that are in effect individuals. I think that is a point that ought to be taken into account.

The CHAIRMAN: That is why I raised it both for the consideration of the Committee and yourself.

Mr. MONTEITH: Is there any top limit to which this disclosure can reach?

Mr. SHARP: Let me put it this way. In many cased disclosure will reveal very high interest rates and it is hoped that this disclosure will discourage the consumer from taking money from such institutions. The important thing is education.

Mr. MONTEITH: I come back to the Bank Act. We are presumably, and I am taking the figures we have been toying around with here since we have had our hearings, namely $7\frac{1}{4}$ per cent on January 1. This is not an upper limit of disclosure.

Mr. ELDERKIN: That is right.

Mr. MONTEITH: Is there any upper limit?

Mr. ELDERKIN: No, there is not now, nor ever has there been an upper limit on service charges.

Mr. MONTEITH: So, as a consequence, the legislation, this amendment, is intended to show what it actually is, namely, the upper limit of interest plus service charges, actual costs, what they will be.

Mr. SHARP: That is it. It is meant to educate the consumer to what he is paying for the accommodation that he is receiving.

Mr. MONTEITH: Well, now, Mr. Elderkin just made a statement that there never has been an upper limit on service charges. Did not Section 91 of the

previous Bank Act, the one presently in force, put a limit on which was 6 per cent?

Mr. ELDERKIN: I think we are getting a little bit confused here Mr. Monteith. There was a limit on interest but there never was a limit on service charges.

Mr. FULTON: Do you envisage Mr. Sharp, the drying up of the sources of credit after this—

The CHAIRMAN: Not a sharp drying up.

Mr. ELDERKIN: Mr. Fulton, I think you had evidence before the Committee by the banks that the present combination of interest and service charges runs—depending on terms—from 9½ per cent to 11 per cent. But no place in any document is this particular percentage stated. This will require them to state the percentage as an annual cost, percentage.

Mr. FULTON: May I ask the Minister another question. Will this involve similar or corresponding amendments to the Small Loans Act and the Interest Act?

Mr. SHARP: No, the Small Loans Act is concerned with the regulation of interest rates under the Small Loans Act. The question of revelation of charges will be covered by the provincial requirements of disclosures of those companies within the province.

Mr. ELDERKIN: Not under the Small Loans Act, Mr. Sharp. I am sorry, but this, in effect, to a great extent, follows the Small Loans Act except there they do not talk about interest at all. They talk about the cost of the loan, the same as the phrase we are using in here. The total cost of the loan in the Small Loans Act must be stated, with no other charges outside of that cost per annum.

Mr. SHARP: Perhaps I ought to amend what I said. The Small Loans Act is concerned with the regulation of interest and, therefore, in order to regulate it, it must be disclosed, so nothing has to be done about that act.

Mr. FULTON: I will make a confession here. My office—and I am a member of my firm—processes a large number of them; they come in and you sign them. I am trying to recall whether in any of the contracts I have seen the total cost of the loan disclosed.

Mr. ELDERKIN: Under the Small Loans Act?

An hon. MEMBER: The bell is ringing. There must be a vote in the house.

The CHAIRMAN: Gentlemen, I think we will have to dispense with our meeting because of the bell. We should decide right now whether we want to meet as scheduled tomorrow morning to continue or shall we continue Monday evening?

Mr. MONTEITH: Monday evening.

The CHAIRMAN: Our meeting is adjourned and we will resume on Monday evening at 8 o'clock.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 43

MONDAY, FEBRUARY 6, 1967

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Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

The Hon. Mitchell Sharp, Minister of Finance; M. C. F. Elderkin, Special Adviser, Department of Finance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25698—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,	Comtois,	Lind,
Cameron (*Nanaimo-Cowichan-The Islands*),	Davis,	Macaluso,
Cashin,	Flemming,	McLean (*Charlotte*),
Chrétien,	Fulton,	Monteith,
Clermont,	Gilbert,	More (*Regina City*),
Coates,	Irvine,	Munro,
Latulippe,	Lambert,	Valade,
	Leboe,	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

MONDAY, February 6, 1967.
(88)

The Standing Committee on Finance, Trade and Economic Affairs met at 8.05 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanimo-Cowichan-The Islands*), Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, McLean (*Charlotte*), Monteith, Wahn—(11).

Also present: Messrs. Grégoire, Lewis and Thompson.

In attendance: The Honourable Mitchell Sharp, Minister of Finance; and Mr. C. F. Elderkin, Special Adviser, Department of Finance.

The Committee resumed consideration of the banking legislation.

The Chairman stated that the Sub-Committee on Agenda and Procedure had met informally earlier this day and had agreed that, in view of the controversy between Mr. James Coyne, President, and Mr. Sinclair Stevens, president, British International Finance (Canada) Limited, the two gentlemen concerned should be called to appear before the Committee tomorrow for questioning. The Committee approved the recommendation of the Sub-Committee.

The Chairman tabled a letter addressed to him from The Canadian Bankers' Association concerning the views of the Association on the interest ceiling which they had not had time to present in their last appearance before the Committee on January 31, 1967.

On motion of Mr. Laflamme, seconded by Mr. Monteith,

Resolved,—That the letter from The Canadian Bankers' Association be included in this day's Minutes of Proceedings and Evidence and that copies be distributed to the members of the Committee. (*See Appendix SS*).

The Committee then resumed questioning of the Minister, who was assisted in answering questions by Mr. Elderkin.

At. 8.55 p.m. the Vice-Chairman took the Chair, and at 9.05 p.m. the Chairman resumed the Chair.

The questioning continuing, at 10.02 p.m. the Committee adjourned until 11.00 a.m., Tuesday, February 7, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

25698—1½

EVIDENCE

(*Recorded by Electronic Apparatus*)

MONDAY, February 6, 1967.

The CHAIRMAN: Gentlemen, I see a quorum. We are now in a position to begin our meeting.

Before we again call on the Minister, I think there are a few procedural matters we should deal with. First of all, I have had delivered to me a letter from Mr. S. T. Paton, President of the Canadian Bankers' Association, containing some supplementary comments with respect to their views on the interest ceiling.

Apparently they felt that it was not convenient late in the evening when they were completing their testimony to go into the question of the interest ceiling at the length they had hoped. They have submitted, in effect, a further memorandum. I would suggest to the Committee we might find it in order if we circulated this memorandum to the Committee so such members would have these further views at this point. It might also be useful when the Minister is before us to be aware of them. We have some additional copies here and I think it would be in order to print it. Perhaps, Miss Ballantine could circulate the memorandum, and when it is circulated I will see if the Committee wishes to have this printed.

While Miss Ballantine is circulating the memorandum, I am going to report on our order of business for tomorrow.

After the topic of the Bank of Western Canada was raised in the House this afternoon I immediately held what I think could be described as an informal meeting of the steering committee in the house itself. As a result of this meeting the steering committee and I were in agreement that we should invite Mr. James Coyne and Mr. Sinclair Stevens, and his group, to appear before us tomorrow to tell us about the matter that was raised in the house, and was reported on at some length in the papers on the week end and today as well. I can report to the Committee that both Mr. Coyne and Mr. Stevens will be available to us tomorrow afternoon. They will not be available in the morning, unfortunately, travel difficulties make it impossible. I think Mr. Coyne will be able to be with us at 4 o'clock, and Mr. Stevens at any time during the afternoon.

I would recommend to the Committee that we might agree at this time that we begin with Mr. Coyne, since he is the one who has made certain allegations, followed by the Steven's group. Now we have the Minister of Finance with us this evening; originally he was to appear before us to continue his testimony on the banking legislation generally. I have taken the liberty of discussing the matter of the appearance of Mr. Coyne and Mr. Stevens, particularly with respect to the matter of his own comments on this particular issue. It would appear to me—and Mr. Sharp may have a comment himself—that it would be more helpful to the Committee, and to the public at large who are interested in

this subject, if Mr. Sharp were in a position to reserve any comments he may have on this West Bank question until we have heard from Mr. Coyne and the Steven's group, and, I presume, also until he has had a chance to have his officials make some further inquiries of their own.

That being the case, this evening I would suggest to the Committee we do limit our questions to the other aspect we had in mind originally to discuss with Mr. Sharp, with the understanding that we would have him come back to testify before us, once we, as a Committee, and Mr. Sharp as well, have had an opportunity to hear what Mr. Coyne and Mr. Stevens have had to say about the matter of controversy we have heard about today and on the week end.

Mr. MONTEITH: Mr. Chairman, I appreciate your approach to the over-all picture, but I have one or two minor questions to ask of Mr. Sharp concerning this affair, which I do not think really would reflect on what is going to be said by the two witnesses who will be appearing before us tomorrow. I would like to be in a position to ask Mr. Sharp these questions this evening.

The CHAIRMAN: Perhaps I should invite some other comments from the Committee: Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There is one point I had in mind, Mr. Chairman. Reference was made in the house this afternoon by Mr. Macaluso to what he wrongly described as an Order in Council which actually was a Treasury Board Minute which gave the number; and the minister in his reply made reference to this. Now, I do not know what the protocol of this is, but is does occur to me that in order that we may estimate the evidence given by Messrs. Coyne and Stevens, we should have the terms of that agreement before us if it could be made available.

The CHAIRMAN: I have already spoken to Mr. Elderkin about this, just before the meeting began, and I have taken the liberty, on behalf of the Committee, to ask him if copies could be made available in both French and English to all of us before these gentlemen appear. I gather from what Mr. Elderkin told me before the meeting that it would be in order and that he is going to instruct his staff to deal with the matter. Am I correct, Mr. Sharp, in saying this is in order?

Hon. MITCHELL SHARP (*Minister of Finance*): Not only so, Mr. Chairman, but I tabled it in the House of Commons.

The CHAIRMAN: Yes, that is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was not sure whether you had tabled it or not; somebody said you had and somebody said you had not. I was not sure.

Mr. MONTEITH: On January 18.

The CHAIRMAN: Yes, that is right.

Mr. SHARP: I made a short statement on holdings, and I asked at the end of the statement if I might have permission to table the order and permission was granted.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That was an Order in Council, or—

Mr. SHARP: A Treasury Board—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): A Treasury Board minute.

Mr. SHARP: Yes.

The CHAIRMAN: Just before we began our meeting this evening I spoke with Mr. Elderkin and asked him to obtain sufficient copies for the Committee and other interested parties, and to have them distributed to us as soon as possible tomorrow. That again may be another reason for the Committee withholding questions on this issue, until we have had a chance to study this document as well.

Mr. MONTEITH: cannot quite agree; this document has been available, and I do not think they are embarrassing questions to Mr. Sharp, I do not mean them to be, it is just for information. So that I think the Committee would be better prepared to question the witnesses who may come before us tomorrow, if we have answers to certain questions which I would like to ask.

The CHAIRMAN: Yes; well, I wish to make clear that my suggestion is not because I fear the consequences of any questions or answers, but merely to permit us to discuss this matter in the most orderly fashion. It was my impression, from an exploratory discussion with the Minister earlier today, that he himself is most interested in hearing, at first hand, if I may use the phrase, what these people have to say because this will affect his report, if I may put it that way, to the Committee and to parliament.

Mr. SHARP: May I suggest, Mr. Chairman, if Mr. Monteith would like to ask some questions relating to what the law is, questions of this kind, or the administration, I would certainly be very happy to answer them. If it relates to what Mr. Coyne said, or what Mr. Stevens may have said, I would have thought it would have been more orderly to have them here to make their statements, then we will have a better idea of what it is we are dealing with.

Mr. MONTEITH: I have to disagree with the Minister. My statements are purely following up some questions in the House of Commons this afternoon. I leave it on that basis.

Mr. SHARP: May I say, Mr. Chairman, I have no objection to answering any of the questions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): To give a further point of clarification on this document—there may be some misunderstanding somewhere—I was given the number of the Treasury Board minute, but the Treasury Board officials whom I contacted said they were unable to let me have it; they had been forbidden to distribute it. Now, they may be confused, though I gave them the date and I gave them the number.

Mr. SHARP: Well, ordinarily Treasury Board minutes are not available—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, that is what I thought.

Mr. SHARP: That is quite possible. But, in this particular case we had already given the Bank of Western Canada the terms of this order. They had published it. So I had no hesitation whatever in laying it before the House on January 18.

The CHAIRMAN: May I suggest a compromise approach which might meet the satisfaction of the Committee. Perhaps we could take a very brief period to have some questions which we might described as being of a prefatory sort to assist us in our questioning of Mr. Coyne and Mr. Stevens. We will have to rely on each others good will in this if we do not, in effect, try to spend the whole evening discussing this issue. Perhaps we can take a brief period beginning with Mr. Monteith and accepting certain supplementaries with the idea that they would be designed to assist us in our questioning of Mr. Coyne and Mr. Stevens tomorrow.

Mr. MONTEITH: This was my intent, Mr. Chairman.

The CHAIRMAN: Yes, well I will recognize you for that purpose.

Mr. MONTEITH: Well, then, if I may start out Mr. Minister, I understand Mr. Coyne phoned—apparently it was Friday morning or in that period—and said he was going to make a statement but gave no indication of what would be in it.

Mr. SHARP: That is right.

Mr. MONTEITH: Well, that is fine. Now, you did indicate in the house—I am not awfully sure of this, but I would like clarification on it—that you had had a discussion with two persons relative to the terms of Treasury Board minute 658534, which was passed on August 3, 1966. Now, I think you said in the house that one of these individuals was Mr. Stevens and that you would have to check on who the other one actually was. Have you refreshed your memory in that respect?

Mr. SHARP: Yes, I have refreshed my memory, and the reason for my hesitation in the house was that my discussion with this other person was not about this matter, and I am not quite certain, but my first impression was that I had said the same to him as I had said to Mr. Stevens, about this Treasury Board order. But, on reflection, I came to the conclusion that I might not have mentioned it to him. At any rate, it is of no consequence, because the person that I wanted to know what my attitude was on this subject was Mr. Stevens, who is the head of that group of companies.

Mr. MONTEITH: Yes.

Mr. SHARP: With respect to the other person involved, we were talking about another matter, and my first recollection was that I did speak to him about the Treasury Board minute. But I did not do so for purposes of conveying any information that he could do anything with.

Mr. MONTEITH: Do you not feel privileged to mention the other person's name?

Mr. SHARP: No, because he was not involved in that sense. We were discussing another matter altogether.

Mr. MONTEITH: Well, then, may I ask upon what date you did discuss the situation with Mr. Stevens.

Mr. SHARP: Today.

Mr. MONTEITH: I beg your pardon?

Mr. SHARP: Today.

Mr. MONTEITH: Today only?

Mr. SHARP: Today only. This is the first conversation I have had with Mr. Stevens.

Mr. MONTEITH: Well, I must apologize Mr. Chairman; I received the impression during the discussion in the house that there had been a discussion earlier than this, concerning the possibility of discussing the terms of Treasury Board minute No. 658534, as to what might have to be done to approach you to consider the implications in the item 2F.

Mr. SHARP: No. If I have mislead Mr. Monteith or anyone else in the house, I did not mean to, and I do not think I did.

Mr. MONTEITH: In other words, you have had no discussion with Mr. Stevens or this other individual, concerning any possibility of these individuals asking you what should be done to approach you on the consequences on these clauses?

Mr. SHARP: That is right. Mr. Chairman, the two conversations that I had were today. Indeed, just to make a point quite clear, there was one thing I might have said in the house that afterwards I regretted that I had not added, during the question period—no it was not during the question period, during the debate, the short debate that took place when Mr. Diefenbaker moved the adjournment of the house, I read the telegram I had received from Mr. Stevens, saying that he would be ready to appear before this Committee. I should have added that I was talking to Mr. Stevens when his telegram arrived.

Mr. MONTEITH: This morning?

Mr. SHARP: This morning. I may have created the impression that I had not had any other communication with Mr. Stevens, but when Mr. Stevens called me, and while he was talking to me his telegram arrived, and he said "Have you received my telegram?" and I said "I have just received it, it has just been put on my desk."

Mr. MONTEITH: Well, then, am I safe in assuming that you have had no conversation with Mr. Stevens between August 3, 1966, when this Treasury Board Minute was passed, and this morning?

Mr. SHARP: So far as I recollect I never talked to Mr. Stevens during that period, and never about this subject.

Mr. MONTEITH: Well, thank you very much Mr. Sharp: that does clear up a point. Now, if I could move just one step further; the discussion this morning with Mr. Stevens revolved around exactly what point, if I might ask that?

Mr. SHARP: Well, Mr. Stevens phoned me to comment on Mr. Coyne's statement; and his main purpose in phoning me, I think, was to say that he was ready to appear before the Committee. He offered me some comments about Mr. Coyne's statement, and during the conversation he said: "Have you got my telegram saying I would like to appear?", and I said "it has just been put on my desk." During that conversation I thought it well, in the light of what Mr. Coyne had said, to make it clear that the terms of this Treasury Board minute governed the relationship between the Bank of Western Canada and its preferred shareholders, and that I would not exercise my discretion except in very exceptional circumstances, as I said in the house.

Mr. MONTEITH: And you told him this this morning?

Mr. SHARP: I told him that this morning, yes.

Mr. MONTEITH: And there had never been any approach—I am only repeating, I am not cross-examining, please; I am only repeating for complete clarification. You had not discussed this particular point with Mr. Stevens prior to this morning?

Mr. SHARP: As a matter of fact, I said in the house, and I think it was quite clear what I said, that this question had not been raised in my mind at all, until Mr. Coyne made his statement.

Mr. MONTEITH: Well, then, one further question if I may, Mr. Chairman, to Mr. Elderkin: Mr. Elderkin, in evidence before this Committee when we were considering the Bank of Western Canada bill before us, you did state, I seem to recall, that in your estimation there was no reason—how shall I put it—that in your estimation this was a charter which met all intents and purposes of the legislation on which we were basing the subject, and so on; that everything seemed to be completely to your satisfaction at that moment.

Mr. ELDERKIN: That is correct.

Mr. MONTEITH: May I ask the question then, does it still appear so to you, in the light of what has happened?

The CHAIRMAN: I think I would like to intervene at this time. Perhaps I erred on the side of kindliness or courtesy—

Mr. MONTEITH: I do not think so at all, Mr. Chairman, we are getting to the point of the discussion.

Mr. ELDERKIN: Well that is really what—

Mr. MONTEITH: Is there anything wrong with me asking Mr. Elderkin if he still feels this way?

The CHAIRMAN: No, I do not think so at all. But I am wondering whether or not we are getting to the position where we now will have to permit every other member of the Committee to pursue this topic at complete length before hearing Mr. Coyne and Mr. Stevens, and having a very complete discussion with Mr. Sharp, and Mr. Elderkin in the light of what these gentlemen—

Mr. MONTEITH: If you had allowed me to ask my question of Mr. Elderkin, we would be finished as far as I am concerned.

The CHAIRMAN: Fine, well now that we have that established perhaps Mr. Elderkin—

Mr. MONTEITH: I just wondered if Mr. Elderkin felt exactly the same way.

Mr. ELDERKIN: Mr. Monteith, there is nothing that has occurred that has been any violation of any terms of the charter.

Mr. MONTEITH: I pass.

The CHAIRMAN: Well, rather than begin a right wheel turn of questions, the understanding was that we would permit Mr. Monteith particularly to ask some questions with a view to assisting us and himself in our questioning of Mr. Coyne and Mr. Stevens tomorrow. I think rather than giving a regular turn of questioning I might invite the members to pose any supplementary questions they consider very important in the light of the basis for raising this topic at this time.

Mr. THOMPSON: I just have a single question for Mr. Sharp. In the various interviews that you had with Mr. Stevens in the past, or in any of the evidence that he has given, to you or to the committee, have you had any reason to be apprehensive about the financial arrangement and share arrangement of the Bank of Western Canada, or has this come as a surprise to you?

Mr. SHARP: The particular question about the propriety of the Bank of Western Canada making any loans to its subsidiaries had never been raised with me until Mr. Coyne raised it. I had no information that led me to believe that the bank was contemplating making any loans to any of its preferred shareholders; so the question had never been raised in the past.

Mr. MONTEITH: I do not like to interject Mr. Chairman, but may I, just for clarification purposes ask this: Until Mr. Coyne raised it in his statement?

Mr. SHARP: That is it, in his statement, yes.

Mr. THOMPSON: And you had no pre-warning on this.

Mr. SHARP: I had no warning about this, and of course the statement that I made today about the exercise of my discretion is the first time that I have ever made a statement about that subject. I assumed that the order spoke for itself on the intent of the granting of a certificate.

The CHAIRMAN: Are there any further supplementary questions of this kind? There are none, I think therefore that we should take it that the committee has agreed that further questions to the Minister on this topic we can reserve until after we have heard from Messrs. Coyne and Stevens and any of their associates, if they care to be involved in this matter tomorrow.

When the committee adjourned on Thursday evening, we were discussing the proposed amendment, brought to our attention by the Minister, with respect to the defining and disclosing of the cost of borrowing. If I am not mistaken —perhaps Miss Ballantyne will refresh my memory—the last person we heard from was Mr. Lind; but before we get to that aspect, we have all had a chance to glance over the letter to me from the Canadian Bankers Association with respect to their further views on the interest ceiling formula, and that being the case, could I have your views on whether this should be made a part of our record.

Mr. LAFLAMME: I so move.

Mr. MONTEITH: I second the motion.

Motion agreed to.

The CHAIRMAN: If I am mistaken, and Mr. Lind has already completed his questions on the proposed amendment with respect to the cost of borrowing, I will invite other members who may still have questions on this issue to signify their desire to me. Are there any further questions on this? If not, I would like to ask something very quickly, and perhaps Mr. Elderkin can deal with it. Subparagraph 6 of the amendment refers to an express agreement between the bank and the customer. Do you know if this has been interpreted as needing to be in writing?

Mr. ELDERKIN: That is right.

The CHAIRMAN: That is the significance of the word "express".

Mr. ELDERKIN: That is correct.

The CHAIRMAN: With respect to clause 92(1)(5)(ii), reference to charges, is that intended to apply to what is known as the compensating balance?

Mr. ELDERKIN: A continuation of that clause, Mr. Chairman, I think covers the point.

The CHAIRMAN: Is the cost of keeping an account included in the cost of borrowing, under this clause?

Mr. ELDERKIN: Normally the cost of keeping an account is a subject matter of service charges which is included in that clause and which in turn is just a repetition of what is subclause (3) of clause 93 of the bill. It has simply been moved from one place to another.

The CHAIRMAN: If there are no further questions on the proposed amendment with respect to the cost of borrowing, definition and disclosure, then we have finished our discussion on the topics the Minister wished to raise with us. We are now open for a general discussion. Perhaps it may be easier—rather than trying to limit this discussion to a specific topic—simply to recognize the members in turn and permit them to pursue whatever avenues they see fit. Does the Committee agree that this would be the easiest way to deal with the matter? If so, then I would be prepared to recognize Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I wonder, Mr. Sharp, if you have had the opportunity to read this supplementary submission by the Bankers' Association.

Mr. SHARP: I have had a similar letter, I think, from the Bankers' Association itself but I have not read the letter now before us.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It would be the same one, I presume.

Mr. SHARP: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I wonder if you have any comment on it. I am thinking particularly if you have any comment to make on their suggestion that we should adopt the proposals made, I think, by Dr. Neufeld one of our witnesses, about the increase of one per cent in the first year followed by—first of all, could I ask your comment on the Bankers' Association's suggestion as to the uncertainty of the present formula and whether it is a valid objection or not. I would like to have your opinion on that.

Mr. SHARP: Mr. Chairman, I have not had the time I would like to have had to consider the implications of this letter. I have had other distractions in the meantime of various kinds. I am impressed, however with the practical application of the varying ceiling. It has been the intent of the legislation in a general way to work towards freedom; in other words, the process would consist of two stages: First of all, a controlled increase in rates followed, I hoped, as interest rates fell, to freedom which I think is desirable in the interests, particularly, of the smaller borrowers. I am conscious of the fact that if the ceiling were, in fact, to come down before it came off that it introduces a rather arbitrary kind of control that does not have very much purpose. Therefore, in a general way, I have felt that the Bankers' Association put forward a valid suggestion

that wherever the ceiling is fixed, as a result of the first calculation, should remain the minimum ceiling. Then when the interest rates fall to the trigger point, the ceiling should be removed altogether. That is the only general comment I would like to make. This, I do not think, is a point of absolutely first rate importance, but I do believe the Committee should give consideration to the point raised by the Bankers' Association because I do not think that we want to introduce unnecessary complications into the business of making loans and borrowing money from the banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you, that is all.

Mr. MCLEAN (*Charlotte*): Mr. Sharp, the formula here would rest with the Bank of Canada rate? Does that have something to do with the Bank of Canada rate?

Mr. SHARP: No; except in a very indirect way. I should think that the Bank of Canada rate would move generally with interest rates but the figure is not related to the Bank of Canada rate.

Mr. MCLEAN (*Charlotte*): I was going to say that it seems that the various nations, including Canada, have come to the conclusion that high interest rates are not curing the heated economy in the way they should. It seems that the United States has taken the lead recently and the various interested nations have gathered together and have decreased the rate by the central banks all around. Is this going to affect the interest rate that you are going to set up by this formula?

Mr. SHARP: Mr. Chairman, I am very happy to see that steps are being taken around the world to reduce interest rates because, like you, I believe that interest rates rose to too high levels throughout the world. I would suggest, however, in this particular case that as far as the bank rate is concerned, Canada moved ahead of the United States because so far as I know, the United States has not changed the federal reserve official discount rate recently and the Bank of Canada has reduced the Bank rate from 5¼ per cent to 5 per cent. In other parts of the world there have been some reductions but we happen to be ahead of the United States. I say that without knowing whether the Americans are going to change their rate.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary?

The CHAIRMAN: Will you yield, doctor, for a supplementary?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is true, however, is it not, Mr. Sharp, that in the United States they have attempted to tackle it from the other end in placing a limit on what may be paid on deposits?

Mr. SHARP: The United States has never had, as you know, a ceiling on interest rates that may be charged. They have had controls in some jurisdictions upon the rate that may be paid for deposits.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. SHARP: Indeed, I do not think there are any other big countries that have a ceiling on interest rates paid by borrowers. Canada is an exception, whether honourable or otherwise, to that rule. At any rate it is an exception. I am not sure why the United States adopted that form of regulation. It may have

something to do with the internal conditions of the United States. Mr. Elderkin may have much more expert knowledge of the reason for the American policy.

Mr. ELDERKIN: The federal reserve under its powers issued a regulation, the so-called regulation Q, which governs the rates which may be paid on deposits, and this has been carried across to not only federal institutions but institutions, for instance, insured under the Federal Deposit Insurance Corporation. This rate was kept substantially lower than what one might call world rates for two or three years, and possibly one of the results that came from that was an outflow of U.S. funds—a very substantial outflow of funds—into a more lucrative market, namely the Euro dollar market. A short time ago—I cannot give you the exact date—they raised the rate under Schedule Q to permit the American banks to be more competitive in the world market in the securing of deposits and this has had quite a substantial effect on repatriating funds.

Mr. SHARP: May I add just this, Mr. Cameron: I do not think if we had had power to keep a ceiling on interest rates paid by the Canadian chartered banks that we would ever have had any reason to exercise it. I do not think they have paid excessive rates.

Mr. MACALUSO: Perhaps we had better put something underneath the floor instead of a ceiling.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was wondering if Mr. Elderkin could tell me does he think that one of the purposes of this was to affect the rates that would be charged for loans in the United States? Was there a connection there?

Mr. ELDERKIN: It would have an indirect effect, I think, but I think the reason for it, if one could guess at it, would be to stop the outflow of United States dollars into other markets.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That was the reason for raising it from 5 per cent to 7 per cent but I was wondering what was their reason for the original imposition of the 5 per cent?

Mr. ELDERKIN: I think possibly an attempt, in general, to keep interest rates under control on both sides.

Mr. SHARP: I would have thought—if I may just speculate for a moment —that it probably was an attempt to prevent competition between institutions for savings that could have produced undesirable distortions in the availability of money in various institutions. By keeping a ceiling on the rates that could be paid on deposits, the flow of funds into various kinds of institutions could be better controlled. I doubt very much whether that had anything more than an indirect effect upon the rates being charged to borrowers. Certainly it could have the effect of increasing the profitability of loans and, therefore, I find it difficult to believe that that could be the primary purpose of the regulations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was asking because there were some suggestions at the time they raised it to 7 per cent that this was their method of indirectly affecting the interest rates charged. I was curious to know how that could have that effect.

Mr. ELDERKIN: I do not think the deposit rate was ever raised to 7 per cent. The deposit rate on certain types of deposits was raised to 5 per cent and on some others to 5¼ per cent.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It was raised to 7 per cent on some of the deposits.

Mr. ELDERKIN: I do not think on the deposit side it ever reached 7 per cent.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): On what could be paid on deposits.

Mr. ELDERKIN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I may be mistaken on that.

Mr. ELDERKIN: As the Minister said, certainly one of the very important points was to protect the savings and loan associations so that the larger institutions could not outbid them for deposits.

The CHAIRMAN: Dr. McLean do you have any further questions?

Mr. MCLEAN (*Charlotte*): Yes. As money is international and flows back and forth, how can we keep a ceiling rate here in Canada if we are going to recognize money as international. I think I read in the press that apparently, $174 million had gone down to the United States in American stocks and money flows back and forth. The Chase Manhattan Bank reduced their borrowing rates to 5½ per cent, but how can we control the rate here in Canada if we are putting a lid on at 6 per cent or 6½ per cent or 7 per cent?

Mr. SHARP: Mr. Chairman, quite obviously a ceiling on the rates charged by banks does not necessarily affect the whole structure of interest rates as we have seen. As mortgages have risen very sharply, as the rates in the money markets have increased, I found it necessary a few months ago to pay what I consider very high rates on government of Canada borrowings and the fact that the banks were under a nominal ceiling of 6 per cent did not seem to protect me very much and I am sure it did not protect very many other people who had to go into the market to raise money. It is true that there must be a certain relationship between interest rates in Canada and in the United States, in particular. After all, Canada is one of the biggest borrowers of capital in the world, and therefore, our interest rates must be in such a relationship with the United States that we have the necessary inflow of capital in order to finance our balance of payments deficit.

Mr. MCLEAN (*Charlotte*): A company as a borrower could go down and borrow from the Chase Manhattan Bank at 5½ per cent. Does this 30 per cent raise in the States affect the borrowings from Canada?

Mr. SHARP: We are exempted from the interest equalization tax, which is the tax to which you refer, on long term borrowings in the United States. We obtained this position as a result of giving undertakings that we would not use this freedom in order to increase our exchange reserves.

The other question about whether there is unlimited freedom to borrow from banks in the United States, I leave to Mr. Elderkin who can be much more precise than I can.

Mr. ELDERKIN: Yes, there is unlimited freedom from our side for banks in the United States.

Mr. McLean (*Charlotte*): Well, I was thinking of competition. The Chase has 5½ per cent to borrowers and we have a 6 per cent here. A borrower could go down and borrowed at 5½ per cent from the Chase. Are they subject to this 30 per cent.

Mr. Elderkin: No, they are not subject to this. I think, Dr. McLean, that 5½ per cent is their so-called quoted prime rate which is often qualified a bit by compensating balances.

Mr. McLean (*Charlotte*): Yes; I have had experience with that.

Mr. Cameron (*Nanaimo-Cowichan-The Islands*): And also on the American dollar.

Mr. McLean (*Charlotte*): But what I was looking at was the competition that the Canadian banks would get from the American banks.

Mr. Sharp: Mr. Chairman, there is such competition today. One of the points that should be considered, when we get around to the question of foreign agencies, is whether in fact the establishment of foreign agencies makes very much difference to the availibility of American dollars to Canadian borrowers.

At the present time, there are Canadian businesses that are financing in the United States by borrowing from American banks. However, you have to bear in mind, first of all, that it is in American dollars that you pay whatever the American bank wants to charge and secondly, you have to repay in American dollars, so that there is an exchange risk involved. These are the reasons why Canadian banks continue to do the great bulk of financing of Canadian business.

Mr. McLean (*Charlotte*): But I understand that this 15 per cent that was on interfered with the borrowing by Canadian customers from American banks.

Mr. Sharp: That is not my understanding, Mr. Chairman. The interest equalization tax does interfere with the purchase by Americans of outstanding Canadian securities upon which that tax is payable.

Mr. McLean (*Charlotte*): I know some years ago when I was active in business, it came up with the Chase Manhattan Bank that the change in the law over there interfered with Canadians Borrowing. I am just asking the question. I know that previously the American banks were very competitive if you wanted to borrow against Canadian banks. When this law went into effect it seemed to throw everything out.

Mr. Sharp: Mr. Chairman, I can assure you that there are salesmen for American banks going around today competing with Canadian banks for business. So far as I know they are doing this business free of the interest equalization tax. The United States government, of course, has given some advice to many people, including banks, to do everything possible to protect the United States from an undesirable outflow of funds because the United States has a balance of payments problem. I am pretty sure that the interest equalization tax does not apply to those borrowers.

Mr. McLean (*Charlotte*): It was my understanding that the Chase bank had to account to Ottawa for any interest they received.

The Chairman: To Ottawa?

Mr. McLean (*Charlotte*): Yes. They had to report it.

Mr. SHARP: I do not think so, Mr. Chairman.

The CHAIRMAN: Mr. Thompson, I gather Dr. McLean has no objection to your asking a question.

Mr. THOMPSON: This business that you refer to is business being done out of hotel rooms, in offices?

Mr. SHARP: I think it is being done in the offices of business corporations in Canada. I do not think that the salesmen for the American banks in Canada have any shyness about doing their business in smoke filled rooms. They do it quite openly.

The CHAIRMAN: Dr. McLean, have you completed your questioning; if so, I will hear Mr. Laflamme followed by Mr. Grégoire.

Mr. LAFLAMME: Mr. Sharp, regarding the interest rate ceiling, should the interest rate ceiling be completely removed while chartered banks as we know legally claim service charges. Are you of the opinion that interest rates would decrease if the ceiling were completely removed?

Mr. SHARP: This is a question that ought to be directed more to the banks than to me; but my impression, and indeed, the reason why the government felt that it was in the public interest to move towards a removal of the ceiling is that there will be no longer just a single rate by banks; that there will be a greater spread of interest rates, taking into account the nature of the business that is being done. It seemed to me that this was a desirable freedom so that the banks would be in a position to give the kind of service to their customers that they wished to do, being able to take into account the cost of doing business and the relative risks involved.

(*Translation*)

Mr. GRÉGOIRE: Mr. Chairman, if I understand right, we can ask questions on any subject related to the bill?

The CHAIRMAN: Exactly.

Mr. GRÉGOIRE: Mr. Sharp, I would like to know what authority you have, as Minister of Finance, on the volume of money supply?

(*English*)

Mr. SHARP: Mr. Chairman, I think you had better cut me off after the first hour. I will give a short answer to that question, and say that the government of Canada accepts the responsibility for monetary policy and that monetary policy in general is implemented through the operations of the Bank of Canada in the money market.

There was a time, I gather, under a previous administration when there was some doubt whether the government was responsible for monetary policy. I will not be any more specific than that. I believe all these doubts have now been clarified and I have no hesitation whatever in saying that monetary policy is a matter of government policy and that I take full responsibility for the actions of the Bank of Canada and its Governor.

Mr. MONTEITH: Was it the administration before the last administration? I remember Walter Harris on more than one occasion—

Mr. SHARP: La même chose.

(*Translation*)

Mr. GRÉGOIRE: Mr. Minister, I think you did not quite understand my question. Maybe it was not properly interpreted. I said: what is your authority, as Minister of Finance, on the volume of the money supply and not the monetary policy generally—your authority over the volume of the money supply.

(*English*)

Mr. SHARP: The authority for the operations of the Bank of Canada which carries out the monetary policy that in turn influences the volume of money is contained in the Bank of Canada Act. It is now recognized, and indeed, will soon be formalized by the amendments which will be before us in the Bank of Canada Act, that these operations which do affect the volume of money are made by the Bank of Canada and in consultation with the Minister and the government itself takes responsibility for the actions of the Governor and of the bank.

Mr. GRÉGOIRE: Then you have full responsibility for the volume of money in circulation as well as legal tender or credit money.

Mr. SHARP: Well, let me put it this way. The Bank of Canada has authority to operate in the money market to influence the volume of money and credit. I would hesitate to say, however, that it has complete control because,—shall I put it this way—when there is a very great demand for money and credit, the Bank of Canada has greater control than when there is a deficient demand for money and credit. It is much easier to put a ceiling on the money supply than it is to create the demand for money and credit. All that the Bank of Canada can do in order to stimulate the demand for money and credit is to take action that will result in a plentiful supply of cash, and in that way to influence the level of interest rates: but the Bank of Canada cannot direct a businessman to go out and borrow money in order to expand his factory.

(*Translation*)

Mr. GRÉGOIRE: If you have authority over the volume of money supply, on what do you base your decisions to set the money supply at a given level?

(*English*)

Mr. SHARP: When a Governor of the Bank of England, Lord Norman, was once asked that question by J. M. Keynes, he said, "I do it by feel and flair" and I do think that to some extent that it remains a question of judgment. There is no mathematical formula by which the money supply can be regulated.

I was asking Mr. Elderkin if he had a copy of the Bank of Canada Act, because at the beginning of the act is given some direction to the bank on how they are to exercise their powers, but unfortunately I have not one.

Mr. GRÉGOIRE: You proceed by feeling on this question of the volume of money supply. It is a question of feelings.

Mr. SHARP: It is a question of judgment.

Mr. GRÉGOIRE: Of judgment?

Mr. SHARP: Yes.

Mr. GRÉGOIRE: You quote a former president of the Bank of Great Britain, I think. There is another economist, Mr. Samuelson, from Harvard University who said that the economics is a science. How can you reconcile these two definitions when you say you proceed by a question of judgment, when the economy is supposed to be a question of science, and science is supposed to be based on statistics?

Mr. SHARP: May I say, Mr. Vice-Chairman, that every time I bring in a budget in which I am concerned about the fiscal policies of the government, I do my very best to try to forecast conditions and on that basis to make judgments about government spending and government taxing. Notwithstanding the great progress in economic science, I still find that there is a vast area of uncertainty. I am always criticized by the Opposition in the House of Commons for exercising my judgment very badly indeed.

Mr. MONTEITH: Do you mean the judgment is bad or the criticism is bad?

Mr. SHARP: Well, that depends on where you sit.

Mr. GRÉGOIRE: Mr. Sharp, I am not talking about a budget which is a forecast of what is to come but I am talking about the volume of money. I wonder if you take into consideration when you make your forecast the actual situation in Canada; I mean the total goods and services available which is, in fact, what is behind the volume of money. Does it become a question of judgment or a question of statistics?

Mr. SHARP: Every time the Bank of Canada operates in the money market in its day to day transactions, it is having to make a judgment not only about the quantity of money and credit available now, but it has to make a judgment on whether the existing situation is going to be sufficiently encouraging or discouraging, as the case may be, to influence the course of events in the future. After all, the most important decisions that are made affecting the volume of business and the level of employment, are the decisions that are made in the business sector as to the volume of capital investment. This is one of the big, powerful influences. So that every day Mr. Rasminsky has to concern himself not only with whether his policies are consonant with the present situation, but also whether they are consonant with the kind of situation that he believes is developing. His aim, as is the aim of the government in fiscal policy, is the maintenance of a high and stable level of employment, stability of prices and a viable balance of payment situation. Each of these considerations has to be taken into account in every decision which is made either in the monetary field or in the fiscal field. I only wish, Mr. Grégoire, that I had a computer that could take all these factors into account and then could come out with an answer, not only about the present but about the future. I can guarantee you that the Minister of Finance would stay in power forever and whatever government he belonged to could go to the people with an unblemished record.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you ever thought of investing in a crystal ball?

Mr. GRÉGOIRE: Mr. Sharp, I am not asking you questions about the future. We will discuss this afterwards. I am asking you questions about the after effects of the reports. Do you feel that actually in Canada the money supply is sufficient for the expansion of Canada.

Mr. SHARP: Shall I put it this way? I believe that during the term that I have been in office the money supply has been sometimes more than adequate for the purpose. I have not been concerned about a deficiency of money and credit. Maybe in the future I will be but up until now I have not been.

Mr. GRÉGOIRE: I would just like to ask the Minister to repeat his last answer. You have not been what?

Mr. SHARP: I have not been concerned about a deficiency of money and credit. I may be concerned about that in the future but during my year or so in office I have not been concerned about that problem.

Mr. GRÉGOIRE: And to what do you compare your satisfaction? Is it to actual production of Canada, the actual goods produced in Canada?

Mr. SHARP: It is the pressure upon our resources which arises from the demands upon them. In other words, I have felt that the economy required, for stability, some restraint otherwise governments and private industry and consumers were going to demand more than could be physically produced at the time. I know that there are still, or have been even in this year of unprecedented prosperity and expansion, some unused resources. But those resources have not been available in the places where they could be used. So that is why I say during the year that I have been in office I have not been troubled about a deficiency of money and credit.

Mr. GRÉGOIRE: Mr. Sharp, as Minister of Finance, how can you be satisfied with the volume of money supply compared to the actual goods on the market when everybody has to borrow to buy those goods. Anybody in Canada who wants to buy a cow which is already on the market and already produced has to borrow to buy this cow. It is the same if they want to buy clothing, furniture and every kind of thing which is actually produced and which are assets in the country. But even then, everyone has to borrow or go on a finance plan or to go to the banks to buy those things. How can you be satisfied with the amount of money in circulation when they do not have enough money to buy what they have worked for and they still have to borrow when they are producing?

Mr. SHARP: Mr. Chairman, the whole of our society is built on the foundation of credit. I am not at all happy that there is as much consumer credit in existence as there is, but every transaction in production nowadays involves some credit. Our system would not work very well if this were not so and I am, therefore, not concerned that there is a great volume of credit being used. This is, I think, normal. It is healthy and, indeed, unless there continues to be a rising volume of bank credit, then we would have good reason to be concerned about the future of Canada.

Mr. GRÉGOIRE: Mr. Sharp, I am not talking about the credit. The point I would like to make is this: Canada produces a lot. The people of Canada are working very hard to produce things but once it is produced, when it is finished —when it is for sale, it is a fact that the people of Canada have to borrow or to go on finance plans to pay for what they have built and what they have produced. That is the problem; not the question of credit. It is the fact that they have to borrow to pay for what they have already produced. That is why I am asking you if you are satisfied with the money supply in circulation in Canada.

Mr. SHARP: A short answer to that question is that I am satisfied we have not suffered from a deficiency of money and credit.

Mr. GRÉGOIRE: Not of credit but of money. Mr. Sharp, when, you yourself, or the Bank of Canada decides to increase the money supply which is done almost every year how do you proceed to increase that money supply?

Mr. SHARP: Mr. Chairman, this dissertation on monetary policy is going to lead us far afield, I can see. If it is agreeable to the Committee I will continue the dissertation.

Mr. GRÉGOIRE: I do not want a dissertation.

Mr. LAFLAMME: Mr. Chairman, I do not want to raise a point of order but I would like to tell my hon. friend, Mr. Grégoire, if he persists in questioning in this field we might all leave here with the sharpest Social Credit theory we have ever had.

Mr. GRÉGOIRE: Mr. Sharp, if you do not wish to answer you are not obliged to.

Mr. SHARP: Mr. Chairman, Mr. Grégoire is a great friend of mine and a great—

The CHAIRMAN: —humanitarian.

Mr. SHARP: And a great humanitarian. I would not want him to think that there is anything personal in this. I had felt that there might be other things that the Committee also might wish to question me about. I find this conversation most stimulating because I very seldom have an opportunity of having a discussion with a Social Crediter. I believe those who follow Social Credit might even benefit from the remarks that I make. However, I am quite willing to forgo the pleasure of your education, Mr. Grégoire, unless you persist.

Mr. GRÉGOIRE: Mr. Chairman, I would like to point out that—

The CHAIRMAN: There is a very simple way of resolving the matter. The ordinary period of questioning is 20 minutes and Mr. Grégoire has taken 15 already. Perhaps we should accord him the opportunity of using his last 5 minutes in a profound study of the views he wishes to question the Minister on, following which we will go on to another matter.

Mr. GRÉGOIRE: Mr. Chairman, may I remind you—and I would not like the last five minutes to be taken off my 20 minutes—that during the committee studies of the Bank Act revisions in 1944 and 1954 there were lots of questions and pages and pages of questions were asked on any subject. There were never any objections on the part of other members of the committee. I wonder why Mr. Laflamme, my friend, would like to object to the kind of questioning that has been put to my good friend, the Minister of Finance.

The CHAIRMAN: I think really Mr. Laflamme was merely attempting to inject a note of levity into our very serious deliberations, since they are ordinarily very weighty.

Mr. MONTEITH: I do not mind, but I am inclined to agree with Mr. Grégoire that in the 1954 hearings we had very far ranging discussions.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, could I ask a supplementary?

The CHAIRMAN: I think that we should in this regard accord Mr. Grégoire the same opportunity we accord others in telling us if he wishes to yield and if he does not—

Mr. GRÉGOIRE: Well, it depends.

Mr. MCLEAN (*Charlotte*): But it has something to do with Mr. Grégoire's question.

Mr. GRÉGOIRE: Oh, yes, I am ready to yield.

Mr. MCLEAN (*Charlotte*): Mr. Sharp, if you would arrange to put all this money into supply I would like to know how we would get it—

Mr. SHARP: Mr. McLean, I am sorry I did not hear the question.

Mr. MCLEAN (*Charlotte*): If you were going to increase the money supply as Mr. Grégoire wants you to how would we get it after it is increased?

Mr. SHARP: Mr. Chairman, there is nothing easier than to facilitate an inflationary movement in prices. The history of mankind is full of the history of governments that did not hesitate to depreciate the currency. This has been a long standing method of financing government expenditures. But I thought in the modern world we had got a little beyond this and that the purpose of our activities these days was to promote the general welfare and, therefore, to promote high levels of employment and income. This cannot be done simply by printing money. That has been tried many times and it has only one outcome. If I may say so Social Credit seems to me to be a sophisticated form of inflationary finance put forward most skilfully by people like Mr. Grégoire. I do not mind discussing this matter with him and I hope that perhaps while he is trying to influence me I can influence him to recognize the limitations of the purely monetary approach to economic questions. It is very easy to increase the money supply—just print the money. But the people of Canada, I do not think, would be any better off as a result.

Mr. LAMBERT: Mr. Chairman, may I ask a supplementary question. Has the Minister consulted with the Minister without Portfolio—the member for Davenport—who voted for debt free money?

Mr. GRÉGOIRE: Mr. Chairman, since Mr. Sharp made a statement on this question of inflation, I think that the Minister is willing to have a discussion on this point. I think it is the only opportunity we have. Outside this Committee the Minister is much too busy to discuss that problem with me. In the house it is always out of order so we do not have the opportunity to discuss it. Since the Minister is ready to discuss it I think we should do it in this Committee even if it is only after all the other members who have questions to ask have asked their questions. I can see that the Minister does not understand our point. When he thinks that we want to print money and put money like this on the market that is not the point at all. We believe there is inflation when there is too much money in circulation compared to the production of the country. But as long as there is not enough money to buy the whole production of a country when it is needed there is no inflation.

Inflation does not come because of money supply increasing, it comes when you put too much money in circulation compared to production. That is scientific because you compare two statistics: the statistics of production and the statistics

of money supply including the speed of circulation of that money supply. That is statistical and that is why we say economics is a science and that is only a question of feeling. That is why I question your argument that we would cause inflation by putting money in circulation like this. The question is to make it a scientific solution of quantity of money supply compared to the quantity of production, taking into consideration the velocity of this money circulation in the country.

I do not think that is what you said a couple of minutes ago. If you want to discuss this theory with me in this Committee at the time of the Bank Act revisions, which I think is the proper time, you have to quote exactly what is Social Credit and not what Yvon Dupuis or other Liberal candidates cried out loud two elections ago.

Mr. SHARP: Mr. Chairman, may I remind Mr. Grégoire that I was brought up in western Canada where the theories of Social Credit were known almost as well as the theories of J. M. Keynes. It is not by reason of ignorance of the Social Credit theory that I take exception to his arguments. I think that the Social Credit theory is based upon a misunderstanding of the nature of our economic processes and, therefore, I am not arguing in anything except in the same terms as he is and I suggest to him that the theories that he is putting forward would not advance the welfare of the people of Canada. I believe that fundamentally they are inflationary.

Mr. GRÉGOIRE: Mr. Sharp, may I ask you a question.

The CHAIRMAN: Mr. Grégoire, we will let you ask your question and allow the minister to reply, and then, I think, as the 20 minute period seems to be on the verge of going by, we should see if there are other members who have questions they consider equally important to bring forward.

Mr. GRÉGOIRE: Mr. Chairman, I am not in a hurry; I will not even ask this question; I will wait till the next turn and then, if everybody has asked his questions and if they are satisfied, I will ask the Minister of Finance some questions. I am not in a hurry; it might be tomorrow.

An hon. MEMBER: Yes, and the day after.

Mr. GRÉGOIRE: And the day after. The Minister said he is ready and willing to discuss it. As we have the opportunity once every ten years, and it is the first time I have with the Minister of Finance, I am willing.

The CHAIRMAN: I hope that this does not mean you will forgo opportunities usually available during supply motions and budget debates to reflect those things.

Mr. GRÉGOIRE: We do not have opportunities on those occasions. A supply motion is two days and you know that with the situation where I am, I never have the opportunity to talk in those two days.

Mr. SHARP: May I, Mr. Chairman, now that I have the copy of the Bank of Canada Act, read the opening words, which will be a partial answer to Mr. Grégoire's question. The preamble says:

> Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national

monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion—

Mr. GRÉGOIRE: That I agree with, but what is in the act after that is not the same. I agree with the preamble. The preambles are always fine, but the legislation does not necessarily follow.

Mr. LAFLAMME: What would be the "after that" that would have to be changed.

Mr. GRÉGOIRE: In this act, I think it would have to be article 72, but I will come to that in the next period.

Mr. THOMPSON: Mr. Chairman, I had not intended to ask any questions along this line tonight, but I am quite surprised at one of the answers that Mr. Sharp has given to Mr. Grégoire, and I would like to ask him one or two questions about it. Mr. Sharp, you stated that you have not been concerned about a deficiency in the money supply during the last year. Does that mean that you consider a tight money situation such as we have had, has been desirable for Canada?

Mr. SHARP: Mr. Chairman, this phrase "tight money" may be subject to some misinterpretation. If members of the Committee had taken the trouble to look at the increase in the money supply that has taken place during this last year, I do not think that they would categorize it as tight money. What has happened is that there has been such a rapid increase in the demand for money and credit, that notwithstanding the increases in the money supply that have taken place, interest rates have risen because the demands were even greater than the increase in the supply that took place. If it had not been for the actions of the monetary authorities in keeping the increase in the money supply within limits, then we should have had an even greater increase in prices.

Mr. THOMPSON: But Mr. Sharp, statistics tell us that we are about 22 per cent behind in building houses, taking just one section of the economy alone. That was not because the contractors could not build the houses, or because the people did not want them; that was because there was no money available to build those houses. Are you saying that this is a good situation.

Mr. SHARP: No. I am saying that if the demand for funds for other purposes had not risen as rapidly as it has, there would have been more money available for housing. One of the most unfortunate aspects of the monetary conditions that have prevailed throughout the world in the last year or so, and the last few months in particular, has been that housing has been one of the first casualties, because the nature of housing demand is such that it cannot compete effectively with the demands of other people who want money for other purposes. This is an illustration of the principle that I had been putting forward earlier, of the attempt to do too much too soon. It was not a shortage of money; it was an excessive demand during this period.

An hon. MEMBER: Or the 11 per cent sales tax.

Mr. SHARP: Mr. Chairman, I will let the interjection stand now, but that is not the reason.

Mr. THOMPSON: In this regard for example, our budget for 1965 was just under $8 billion and the expenditure for 1966 is going to be in the proximity of $10 billion. With an increase like this in the neighbourhood of 20 per cent on federal government expenditure alone, which apparently was essential, otherwise you would never have allowed such expenditure increase, you still say that you are not concerned about money supply. I do not find that satisfactory, but be that as it may, let us take 1965 as an example. The national income for 1965 was just below $38 billion; that is the money Canadians earned by salaries, dividends, commission, sale of produce, whatever it was. Now the GNP for that year was just over $52 billion. The market value of consumable goods and services was somewhere between the two figures. An estimate would put it at about $44 billion. Do you think that this is a good situation, where the national earnings of Canadians are that much below the production of consumable goods and services?

Mr. SHARP: There is something wrong with that particular statistical computation. It would not matter how high production had been; there would still have been that difference. I think sometimes that Social Crediters in particular are bemused by these national account figures, and read into them a significance that is not there.

Mr. THOMPSON: Let me ask this question. Would you not agree that it would be desirable for the economy if the supply of money in the economy were adequate to bring the level of the income of Canadians up to the fair market value of the consumable goods and services produced?

Mr. SHARP: Mr. Chairman, in the national accounts, the value of the gross national product is exactly equal to the gross national expenditure.

Mr. GRÉGOIRE: Because we borrow.

Mr. THOMPSON: Because you borrow.

Mr. SHARP: Let us be quite clear about this, so that there is no misunderstanding, that these two figures are identities.

Mr. THOMPSON: They are identities, because you make up a lack through the debt system.

Mr. SHARP: No, they are just identities. The sum of all the money that is paid out in order to produce goods, is exactly equal to the total sum of the value of the goods themselves. This is an identity; it cannot be anything else. There is no gap, although sometimes the statisticians make some little errors so something is added for a balance.

Mr. THOMPSON: Mr. Sharp, do not tell us that the factors which make up GNP are all consumable goods and services. You know that they are not.

Mr. SHARP: Oh, no, some of them are machinery.

Mr. THOMPSON: They have no relation to it whatever.

Mr. SHARP: The gross national expenditure, the total amount of money which is spent is exactly equal to the value of the total amount produced. This is an identity; this is exactly how the national accounts are made up; like double entry bookkeeping.

Mr. THOMPSON: May I ask you this question. Is the prosperity of the nation, the well-being of our economy dependent then upon a debt system, as we operate now, in your opinion? This follows out of what you have said.

Mr. SHARP: I do not think that there is anything wrong with a debt system.

Mr. GRÉGOIRE: Except the service charges, $1,200 million this year.

An hon. MEMBER: What did you pay for your house?

Mr. SHARP: The debt system is a perfectly normal part of any system; it would be normal, I think, in a socialist system, perhaps not in a social credit system. There is nobody in the world that has experimented with one. A few misguided countries have gone in for socialism, but none for Social Credit.

Mr. THOMPSON: Mr. Chairman, it is nice to make light of these things, and if the economy of Canada were functioning as effectively as it should, we might be in a position to make light of some of these topics, but I am not sure that it is. Another thing that disturbs me, Mr. Sharp—you brought on these questions yourself—is that you talk about depreciating currency. Are you satisfied that the present deflation of money, owing to the inflation of the cost of living, is a satisfactory and desirable situation?

Mr. SHARP: No, and I spend a good deal of my time trying to keep these inflationary tendencies in control, and I get criticized a good deal for trying, but within limits we have a useful effect. Nothing would please me more than to see a world economy in which prices did not rise over-all. I am not one of those who believe that it is necessary to have rising prices in order to have prosperity and rising production. I believe that we ought always to be aiming at stability of the general price level; not individual prices, of course.

Mr. THOMPSON: Mr. Sharp, do you believe that governmental expenditure should not increase faster than the value of the productivity of the economy, as far as ratio is concerned?

Mr. SHARP: I do not understand the question; I am sorry.

Mr. THOMPSON: I am speaking now about the increase of federal government expenditure in 1966 over 1965 of between 17 and 20 per cent, where our gross national profit increase, allowing for the increase in cost, is about 4 per cent. Do you think that that is a good proportion. You say that you have done everything that you can to avoid these inflationary measures, and yet you in your first budget are responsible for increasing the budget up to 17 to 20 per cent over the year before when the productivity of the nation has increased perhaps 4 per cent.

Mr. SHARP: Fortunately, the productivity increased by about $6\frac{1}{2}$ per cent.

Mr. THOMPSON: Allowing for the increase in the cost.

Mr. SHARP: And the total government expenditure went up relatively faster than output, because the people of this country, as represented by all of us sitting around this board, have felt it desirable to extend the scope of government spending. These are decisions that we make.

Mr. THOMPSON: Do not include everybody in that, please.

Mr. SHARP: At any rate, parliament approved increases in expenditures. We did not approve everything that every party wanted to do, but we did increase expenditures, because we felt that the Canadian people wanted these services.

Mr. GRÉGOIRE: Yes, but when the interest on the debt increased by $150 million or $125 million, do you think the people accept that increase in that department? And is it not a consequence of your debt system?

Mr. SHARP: I think it is most important that the government should pay their debts, and should pay interest when they borrow money. And I think there is a very good argument from time to time for adding to the public debt. I do not believe that this is going to destroy the country. But I do think that we should try to avoid increases in debt when the country is in a position to pay cash for the services that it requires.

Mr. THOMPSON: Mr. Chairman, I do not want to carry on an argument. I just wanted to get Mr. Sharp's statements on some of these things and I think we have them now. That is good enough. It is hopeless.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have a short supplementary question, Mr. Sharp. I was rather interested in the connection that Mr. Thompson saw between government expenditures and the gross national product and the suggestion that there should be a determined ratio between the two.

Mr. THOMPSON: What is the increase, approximately, in mills?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is just the point I want to come to. Would it not be correct to say, Mr. Sharp, that increases in government expenditures are in the main efforts to reallocate our resources in the way in which the government considers is most desirable for our society. Is this one of the purposes of much of government expenditure?

Mr. SHARP: Yes, Mr. Chairman. I would only amend that slightly to say that parliament rather than government wishes to see that accomplished. That is one of the functions of government expenditure. The proportion of total government expenditures by all Canadian governments, provincial, municipal and federal, has been rising a bit in terms of its proportion of the gross national product, but it is a much larger gross national product. Even if the proportion has risen a bit there is still in the hands of Canadians generally more money free of taxes to spend for their own purposes. I do not believe that small increase in the proportion of the GNP going to governments is necessarily a bad thing. I think it does represent some redistribution of incomes in favour of those who need services that most of us would like to see them have.

Mr. THOMPSON: Mr. Chairman, I would challenge the statement that Mr. Sharp has just made that there is more money in the hands of Canadians to spend even after the increase in government expenditure because statistics do not bear it out. I would like to see you produce it—

Mr. SHARP: I suggest, Mr. Chairman, that if you would like to have some evidence on this point it can easily be produced.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Even if it were not, Mr. Sharp, is this not rather irrelevant? Is not the decision on what proportion of the gross national product is spent on these things a matter of policy, whether or not it is wise to replace in some instances private expenditure by what I might call communal expenditure—removing some of the burdens of private expenditure from individuals and spreading them across the community?

Mr. SHARP: Yes, I agree with that statement.

Mr. GRÉGOIRE: Mr. Sharp, even if government expenditures are increasing, do you not think that Canada could afford to increase the building of houses which the people of Canada need and are able to build? Do you not think the Minister of Finance should find a way in which to carry out this construction when there is such a need for houses? The minister has the potentiality in the wealth of the country and the manpower is ready and able to build those houses; therefore, the government of Canada should see that it is done. Do you agree that this increase in government expenditures should not prevent these homebuilding projects on a large scale?

Mr. SHARP: Mr. Chairman, it has not been the increase in government expenditure that has interfered with the building of houses. It has been the demands for money both by business and by government that has competed with the housebuilders for mortgage funds. In the circumstances of this past year, the housebuilding industry has suffered. The government has recognized this and is taking steps to adjust it because we believe that a larger supply of housing is very desirable. We have taken a number of steps—one of them I hope we are taking in this Bank Act—to make available another source of mortgage finance on a more widespread basis for the people of Canada.

Mr. LATULIPPE: Sir, you say that it is—

The CHAIRMAN: May I just interrupt here. The next name on my list, Mr. Latulippe, followed by Mr. Lambert. Before recognizing Mr. Latulippe, I think we have to clarify one point. As you recall, at the beginning of our meeting we agreed to hear Messrs. Coyne and Stevens tomorrow afternoon beginning at four o'clock. It may well be that we will not complete our questioning of the minister this evening and perhaps we should inquire whether he can be back with us tomorrow morning at 11 a.m. with a view to attempting to complete our discussion.

Mr. SHARP: If the Committee would like to have me I am quite sure I can arrange my schedule.

The CHAIRMAN: While it is true we have unique opportunities here, which in theory should not be limited to discussing these wide ranging matters with the Minister, at the same time we do have certain obligations to the house and, if it is a fact that there is some continued intention to attempt to prorogue on the 10th of March, we have a special obligation to give the house, an opportunity to deal with this matter before prorogation. I am not saying I am necessarily enthusiastic about the March 10 prorogation date but in this regard we are servants of the house, so we might keep this in mind with respect to deciding the urgency and priority of our questions.

Mr. GRÉGOIRE: May I ask a supplementary question?

(*Translation*)

The CHAIRMAN: You could ask leave of Mr. Latulippe. . .Mr. Grégoire?

Mr. GRÉGOIRE: Mr. Sharp, you said that these housebuilding projects were not able to proceed because demands were so high in other fields. I think that is what you said. Do you think that, if we had had the money, we could have built those houses in addition to all the other projects that were put forward and built. Do you not think it is a question of money either than the question of other

things being buildt? Do you not think we would have been able to do both at the same time if we had the money, the need and the people to work on them?

(*English*)

Mr. SHARP: No, I do not think so. Indeed, there were many commercial projects that had to be postponed as a result of inability to proceed last year so I cannot agree with the statement that it would have been possible to do everything we wanted to do.

Mr. GRÉGOIRE: Was it a lack of raw material?

Mr. SHARP: Labour, raw material, time.

Mr. GRÉGOIRE: If you need labour, Mr. Minister, may I suggest an address, the employment office in my constituency. You will find people there who are willing to work in construction.

Mr. LAMBERT: Are they prepared to go to Edmonton and Calgary?

Mr. GRÉGOIRE: Well, we need houses in Quebec too. Quebec is not progressing as rapidly as other provinces.

Mr. LAMBERT: The demand is as great in other provinces.

Mr. GRÉGOIRE: Yes, and it is just as great in my province so why should we go to Alberta when there is a great demand in Quebec?

(*Translation*)

The CHAIRMAN: I think we should recognize Mr. Latulippe and give him the opportunity to ask his questions.

Mr. LATULIPPE: Mr. Chairman, I wish to thank you for your kindness in recognizing me. Just a few questions I would like to direct to the Honourable Minister. My questions concern reserves, cash reserves and secondary reserves.

On this subject Section 59, Chapter XII, of the Chartered Bank Act, mentions that Banks are obliged to maintain reserves, according to the Canadian Bank Act, of no less than 5 per cent of their requirements for deposits in Canadian dollars. The reserves consist in deposits with the Bank of Canada and in bank notes held by the Bank:

This appears in the revised Statutes of Canada for 1952, Chapter XII, Page 37.

Now, in 1954, Section 71; This money reserve is raised from 5 to 8 per cent. And more confusing explanations are given on how to calculate the cash reserve in relation to the deposits payable in Canadian currency.

In 1967, Clause 72 of Bill C-222 mentions rates of 12 per cent and of 4 per cent for deposits payable on demand and deposits paid after notice in Canadian currency. Moreover, sub-clause 2 is sub-divided into two paragraphs and, sub-clause 3 is also divided in three paragraphs. These require secondary reserves over and above the four primary reserves at different rates of 12 per cent, 4 per cent and 8 per cent of the whole for different periods of time.

Why is it, Mr. Minister, why is everything so complicated when it would be so easy to say we will set a rate of 7 per cent, or 8 per cent or more and stop complicating things to a point where it is practically impossible to understand. Why, Mr. Minister, do we not have clearer clauses so that citizens will not be mixed up with text becoming harder to understand?

(*English*)

Mr. SHARP: Mr. Chairman, the main purpose of the amendments we are proposing is to influence the activities of the chartered banks. I think they understand the regulations very well and that it is not necessary to oversimplify them for their purposes. The changes that we suggested in the cash ratios are intended to influence the banks in a particular direction and I believe they are in the general interest and will result in lending practices and other activities of the banks that will improve their ability to serve the Canadian people. I do not think they are overcomplicated, and certainly the banks will understand them very well indeed.

(*Translation*)

Mr. LATULIPPE: Banks understand them, but the citizen has a hard time understanding them. It is not only the banks that should understand them and I find things are so complicated that one cannot say for sure what the rate will be. You say it might be 7 per cent, it can go to 8, it could vary. So, why not set a truly definitive and easily understood rate and mention some figure, but something that would be clear. These things are getting always harder to understand, the people are getting mixed up and it is difficult to understand all these clauses. Now, perhaps, the Minister might bring in an amendment to the Act and say whether it will be 7 per cent but these rates of whether it is 12 per cent, 4 per cent or 8 per cent should be removed and the rate of 7 per cent decided on. It would seem to me clearer and more logical for the people who have difficulty understanding such matters.

Now, Mr. Minister, what do you understand by cash and what do you understand by Canadian money? Can you give us a definition?

On many occasions, I have asked to have this definition from people who appeared before you, and never got an answer. I never could get the definition, so I am asking you to give us this definition. What is cash and what is Canadian money? What do you understand by cash, what do you understand by Canadian money? That is my question.

(*English*)

Mr. SHARP: Mr. Chairman, as far as the banks are concerned, they understand cash to be Bank of Canada notes or deposits in the Bank of Canada. From their point of view that is cash, broadly speaking. As far as I am concerned, Canadian money has many meanings. It can mean the notes I have in my pocket or the deposit that I have in the chartered bank; that is all money as far as I am concerned and it is all Canadian money. Banks understand what cash means. Cash is what they have and do not earn anything on and they must understand that very clearly and try to keep the ratio between their cash and earning assets as low as possible. That is the whole purpose of banking as I understand it.

(*Translation*)

Mr. LATULIPPE: Now, Mr. Minister, you have defined cash and Canadian money, would it be too indiscreet to ask you the total of the money supply, what does it amount to in Canada?

(*English*)

Mr. SHARP: The money supply has been defined by economists in various ways. It usually consists of the money available to individuals and corporations

in the form of deposits and cash in their tills or in their pockets. It usually includes demands and notice deposits; it usually includes coinage, and it usually includes Bank of Canada bills. This is the general way in which the money supply is defined. There will be some economists here who will quibble a bit about the exact definitions but I think in general that is what it is.

Mr. GRÉGOIRE: The total of Bank of Canada notes, and Canadian dollars deposited in the banks.

Mr. SHARP: I suppose you could include coinage too, in part.

Mr. GRÉGOIRE: Do you include deposits in trust companies or a saving bank?

Mr. SHARP: This is one of the reasons why I say the economists might quibble a bit. Because of the expansion of the activities of these other deposit taking institutions, some economists might be inclined to include the deposits that are available in these trust and loan companies as being part of the money supply and I would not disagree with that. I would think that that is probably so.

(*Translation*)

Mr. LATULIPPE: And now, Mr. Minister, you have defined cash and Canadian money. Would it be too indiscreet to ask you, what does the money supply amount to in Canada? We were talking about money supply awhile ago, what does it amount to in Canada?

(*English*)

Mr. SHARP: To the extent that people have deposits, wherever they are located, whether they are in a chartered bank or a trust and loan company or a caisse populaire, and they can spend them, they can go in and get the money and spend it, it is part of the money supply that is available for spending. But as I say there may be differences of degree as to how accessible some of that money is, depending upon whether notice has to be given, but apart from those refinements, I think it would all be part of the money supply.

(*Translation*)

Mr. LATULIPPE: Do the assets of the Caisses Populaires and other financial institutions form part of the money supply?

(*English*)

Mr. SHARP: Mr. Chairman, I do not carry these figures around in my head.

(*Translation*)

Mr. LATULIPPE: We can conclude then, although you did not say it in so many words, that the total of the money supply would be about 21 billion dollars. Are my figures accurate?

(*English*)

The CHAIRMAN: Perhaps Mr. Sharp could check on the answer to this question.

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, if there only about 3 billion, presently, in coin and paper money created by the Bank of Canada, could you tell us who created the other 18 billion that go to make up this money supply of 21 billion?

(*English*)

Mr. SHARP: The process of credit creation is a familiar one. The banks make loans. The proceeds are left on deposit with the banks. They become part of the money supply. That is one way in which they are created. I think it is a familiar method and I gather it is one of the methods that the Social Crediters always seize upon as being unnatural.

Mr. GRÉGOIRE: No, we do not say that. Where is MacIntosh?

(*Translation*)

Mr. LATULIPPE: Would you not agree that if the people's government has the power to create the first 3 billion in paper money or coin, they should be able to use this power to create the other 18 billion required for our national economy?

(*English*)

Mr. SHARP: A short answer, Mr. Speaker, is because we consider the present system to be superior to the one in which all the money would be in the form of Bank of Canada notes or otherwise created by the government itself.

Mr. GRÉGOIRE: Well, it is not necessary to have all the money in Bank of Canada notes. As you say, it could be in the form of credit money.

(*Translation*)

The CHAIRMAN: Mr. Latulippe.

Mr. LATULIPPE: I have a few more questions. It won't take very long.

The CHAIRMAN: You still have seven minutes to ask your interesting questions.

Mr. LATULIPPE: I will change the subject. I will turn to another subject which also concerns the banking system. The Minister has already alluded to inner reserves. I would like to ask him whether he has any idea of the amount of inner reserves in 1963?

(*English*)

Mr. SHARP: Yes; I am kept informed about inner reserves.

(*Translation*)

Mr. LATULIPPE: Would it be possible to divulge them? Or would this be indiscreet?

The CHAIRMAN: Mr. Latulippe, this question could better be asked after the Act has been passed by Parliament. It will be easy to ask it next year.

Mr. LATULIPPE: Why do you allow banks and other financial institutions or large corporations to have "indiscreet' reserves?

The CHAIRMAN: Are you speaking of inner reserves? Reserves must indeed be discreet. It is the public reserves that are indiscreet. Are you referring to hidden reserves of financial institutions?

Mr. LATULIPPE: If you do not accept the word "indiscreet" then let us say "hidden".

(*English*)

Mr. SHARP: Mr. Chairman, the subject of hidden reserves is covered in the amendments to the Bank Act. We hope to make them less than discreet in the future by revealing them to the population at large.

(*Translation*)

Mr. LATULIPPE: Could you tell us, Sir, if all large corporations are submitted to the same regulations? Do they all have inner reserves?

(*English*)

Mr. SHARP: Mr. Speaker, in so far as the Income Tax Department can manage it, they have to reveal all their reserves and they are permitted to have reserves only for certain specified purposes, such as, reserves against losses, or against payment of taxes, or for purposes of adding security to their operations, and so on. There are many categories of reserves. I think that banks are the only group of our large corporations that have up until now enjoyed special privileges in reserves.

Mr. ELDERKIN: And insurance and trust companies.

Mr. SHARP: Oh, insurance companies and trust companies, yes; I am sorry. It has only been financial companies that have had special regulations permitting special reserves which have been, I understand, given because of the special character of the obligation of financial corporations. It is to ensure that these financial institutions shall always be able to honour their obligations that we give them some special reserves against these risks.

(*Translation*)

Mr. LATULIPPE: Would it be illogical to allow other institutions to have reserves or accumulate similar reserves?

The CHAIRMAN: I think, Mr. Latulippe, your very interesting question does not relate to our Parliamentary terms of reference, because we are not dealing with companies in general but only with financial institutions.

Mr. LATULIPPE: I know, but the other institutions also have rights. They also have the right to put aside certain reserves to provide for misfortune or certain accumulating losses, and there are many corporations who make losses by going bankrupt and they are not allowed to have such reserves. It would seem that society and the individual are not protected. If you protect some people you must also protect others. Everyone lives together and if there were no people, if there were no other companies, there would not be any banks, either. Society is what keeps the banks going. So I think that indirectly, corporations or institutions in society should have at least an equivalent reserve they could accumulate to look after bad losses, or bad periods.

(*English*)

Mr. SHARP: Mr. Chairman, I am sure it is obvious why financial institutions have had the privilege of these special reserves. It is because of their relationship to the public. Banks accept deposits. The public must feel that they will always

get their money back that is on deposit. Insurance companies sell insurance policies and sometimes have to make payments to policyholders. Trust companies accept deposits.

These financial institutions stand in a special relationship to the public. In other words, they are not like a manufacturing company that is turning out automobiles. Such a company has no responsibility except to turn out an automobile. But a bank is accepting deposits, paying them out, and there must always be confidence that the banks will honor their obligations and the people will be able to get their savings or their deposits back on demand without any question whatever.

(*Translation*)

The CHAIRMAN: Mr. Latulippe, do you have any other questions, because your time has expired?

Mr. LATULIPPE: I still have some questions, Mr. Chairman, which I will ask later. But before I pass, I would like to ask the Minister why, if financial institutions have to have certain reserves to provide for certain anomalies and things that might come up in business, the private companies should not also have the right to accumulate some reserves to provide for bad debts, because if the public is not protected, the banks will not be either. The public certainly has the right to have some reserves and is more subject to loss than the banks. According to statistics, the banks lose ½ of 1 per cent and I know people and companies who have lost 10, 12 and 15 per cent. I have not known any companies who lost but 1 per cent. Corporations lose a lot more than the banks do, that is why I think that they have a right to accumulate certain reserves to provide for these situations.

The CHAIRMAN: Mr. Latulippe, I would like to bring something to your attention. I think that it is in order for accountants, even if companies don't insist on it, to have certain reserves against losses. Legislation governing corporations in various provinces, in some cases, requires them to have certain reserves, so the interesting point you raise is already accepted in the business world.

(*English*)

Mr. Sharp, do you feel that I have clarified that aspect.

Mr. SHARP: Yes, you did it very well, Mr. Chairman.

The CHAIRMAN: Thank you. Having received that accolade, perhaps Mr. Latulippe, your period has expired.

(*Translation*)

Mr. LATULIPPE: Do I have a few more minutes, Mr. Chairman?

The CHAIRMAN: Only if the group is willing to stay for a few more minutes. You could perhaps start again after another member of the Committee has asked his questions, tomorrow morning.

Mr. LATULIPPE: I only have one more question.

The CHAIRMAN: Just one question? This would enable Mr. Latulippe, to finish and we could start tomorrow morning at 11.00 a.m. with Mr. Lambert who also has some interesting questions to ask.

The CHAIRMAN: Mr. Latulippe would you like to ask your last question.

Mr. LATULIPPE: Could you tell us, Sir, how it is that in a country such as Canada having extraordinary resources in natural wealth, manpower, and university graduates, has to borrow foreign capital to develop these same resources and make them available to its citizens?

(*English*)

Mr. SHARP: The short answer is because our savings are not adequate to our needs.

Mr. GRÉGOIRE: Or because income tax takes all our savings.

Mr. SHARP: That is a form of compulsory saving.

The CHAIRMAN: Perhaps, we may discuss that aspect of it with Mr. Benson at some later date.

May I suggest that it will now be in order for this meeting to adjourn until 11 o'clock tomorrow morning when we will continue with the Minister. I think Mr. Lambert will be first on the list at that time, followed by Mr. Gilbert, with the understanding that we will reserve any questions we may have on the West Bank issue until after we have heard from Messrs. Coyne and Stevens in the afternoon and evening.

This meeting is adjourned.

APPENDIX «SS»

THE CANADIAN BANKERS' ASSOCIATION

President's Office

Toronto 1, Ontario
February 6, 1967

Herb Gray, Esq., M.P.,
Chairman, Standing Committee on
Finance, Trade and Economic Affairs,
Parliament Buildings,
Ottawa, Canada.

Dear Mr. Gray:

We had hoped to be able to discuss Section 91 of Bill C-222 in the same detail as other sections during our appearance before the Committee last Tuesday but were forced to curtail our presentation by the fact that it was quite late in the evening when the item arose. We therefore make this further submission in writing in the hope that you and your fellow members of the Committee will consider its contents in the course of your final deliberations on the Bill.

At the outset we would repeat our firmly held conviction that the many arguments that have been advanced for removal of the ceiling are just as applicable today as they will be at any time in the future. And all the major witnesses before your Committee have accepted the principle of ultimate removal. One of the most important among these in our opinion was the Canadian Federation of Agriculture, which, after sustained opposition over a long period of years, now supports repeal.

Immediate removal would bring into the scope of bank lending a range of risks for which credit is either not available at all or is available from other lenders only at rates perhaps twice the level that would prevail once the banks were free to compete. To many borrowers the banks would be able to bring benefits comparable to those they have provided to over 2 million Canadians through their active participation in the field of personal loans.

Also, the pressure to find revenues from borrowers through other sources would be relieved immediately. Rising administrative and money costs have tended to narrow the spread between expenses and revenues in the lending operations of the banks, and with more advanced costing procedures the banks are attempting to allocate expenses more fairly between their customers. However this development need not militate against the objective that the rate of interest on a loan be as nearly as possible on an "all inclusive" basis. The real obstacle to this goal is the interest ceiling, and the sooner it is removed the sooner the goal will be reached.

Turning to the formula for removal of the ceiling, we must state our views that, while in its conception it is rather ingenious, it has very serious practical disadvantages.

You will recall that Section 91 of Bill C-222 provides that the ceiling will be set for six months at a time at a level $1\frac{3}{4}$ per cent above the average of short term

government bond yields calculated in a preceding *fixed* quarterly period. (91(3) and (7)). You will also recall that whenever the average of such short term rates in *any* period of three month falls below 4½ per cent of the ceiling will expire in the immediately following month. (91(9)).

The effect of this formula is that the ceiling may move upward if short term rates rise, but it will also move down again as short term rates decline and will not fully come off until it is back down again approximately to where it is now.

This formula leaves many uncertainties. There is no certainty as to the level of rates that may be anticipated under it. There is no certainty as to the duration of the downward adjustment. There is no certainty as to when the ceiling may eventually come off. It is only reasonable to assume that the banks will be very reluctant to institute any new lending policies under such completely unpredictable circumstances.

There is the added practical difficulty that with the recent decline in short term bonds rates the initial ceiling is more likely to be 6¾ per cent or even 6½ per cent, rather than the level of 7¼ per cent as now calculated.

If a transitional provision is to be retained, we would urge that it embody at least three features:

1. An initial step that will provide sufficient room for the desired degree of diversity in bank lending and the desired use of the rate of interest to the fullest extent as the inclusive cost of the loan to the borrower. This should be at least 1 per cent.

2. An assured upward progress towards complete removal. This will permit new policies to be introduced by the banks in a planned and logical development.

3. The total duration of the transitional period should be certain. A transitional device should provide a firmer bridge to the future than that now proposed.

There are several improvements that could be adopted singly or in combination to obtain these objectives.

Within the present formula, for example, it could be provided that rather than decline with reducing short term rates the ceiling could remain at the highest level reached under the formula until the removal device operated. (The disadvantage of this proposal is that if present short term bond rates persist the ceiling would be a very low one throughout.) The termination of the transitional period could also be hastened by raising the present base point to 5 per cent rather than 4½ per cent as we recommended in our hearings. A modification of this proposal, designed to prevent the ceiling from becoming "stuck" at a low level over a long period, might be that the ceiling be removed any time after a year or more if the short term bond yield was then down to 5 per cent measured as now provided for in Section 91.

An alternative, which recognizes that any formula must have some arbitrary element in it, would be an adaptation of that proposed by one of your witnesses. This would be an arbitrary annual increase of possibly 1 per cent in the first year, followed by increases of ½ per cent for two or three further years, following which the ceiling would be removed. As a supplement to a fixed number of years the removal device now embodied in Section 91 might be left to operate to effect earlier repeal if the formula would so provide.

All of the above is respectfully submitted to assist yourself and your colleagues in their concluding deliberations on Bill C-222. We would take this opportunity to express to the Committee our appreciation for the courteous and attentive hearing of our views in your public sessions and for the further opportunity of submitting the above comments.

Yours sincerely,

Original signed by
S. T. Paton
President

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-Seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 44

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TUESDAY, FEBRUARY 7, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

The Hon. Mitchell Sharp, Minister of Finance; Mr. C. F. Elderkin, Special Adviser, Department of Finance. Messrs. James E. Coyne, President, Bank of Western Canada; and Sinclair M. Stevens, President, British International Finance (Canada) Limited.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25700—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,	Flemming,	Macdonald (*Rosedale*),[1]
Cameron (*Nanaimo-Cowichan-The Islands*),	Fulton,	Mackasey,[2]
Cashin,	Gilbert,	McLean (*Charlotte*),
Chrétien,	Irvine,	Monteith,
Clermont,	Lambert,	More (*Regina City*),
Coates,	Latulippe,	Valade,
Comtois,	Leboe,	Wahn—(25).
	Lind,	

Dorothy F. Ballantine,
Clerk of the Committee.

[1] Replaced Mr. Macaluso at the afternoon sitting, February 7, 1967.
[2] Replaced Mr. Munro at the afternoon sitting, February 7, 1967.

ORDER OF REFERENCE

TUESDAY, February 7, 1967.

Ordered,—That the names of Messrs. Mackasey and Macdonald (*Rosedale*) be substituted for those of Messrs. Munro and Macaluso on the Standing Committee on Finance, Trade and Economic Affairs.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25700—1½

MINUTES OF PROCEEDINGS

TUESDAY, February 7, 1967.
(89)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.05 a.m. this day, the Vice-Chairman, Mr. Laflamme, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Davis, Flemming, Fulton, Gilbert, Irvine, Laflamme, Lambert, Latulippe, Lind, McLean (*Charlotte*), Monteith, More (*Regina City*), Munro—(15).

Also present: Messrs. Baldwin, Grégoire, Macdonald (*Rosedale*) and O'Keefe.

In attendance: The Honourable Mitchell Sharp, Minister of Finance; Mr. C. F. Elderkin, Special Adviser, Department of Finance; Mr. Denis Baribeau, research assistant.

The Committee resumed consideration of the banking legislation.

The Minister was questioned, and was assisted by Mr. Elderkin.

There being no further questions at this time, the witnesses retired, subject to recall.

At 12.00 noon the Committee adjourned until 4.00 p.m. this day.

AFTERNOON SITTING
(90)

The Committee resumed at 4.10 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Coates, Davis, Flemming, Fulton, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Valade, Wahn—(19).

Also present: Messrs. Aiken, Chatterton, Grégoire, Macaluso, Munro, Rock, Sherman and Thompson.

In attendance: Messrs. James E. Coyne, President, Bank of Western Canada; Sinclair M. Stevens, President, British International Finance (Canada) Limited; W. E. Scott, Inspector General of Banks; and Mr. Baribeau.

Mr. Coyne was called.

On motion of Mr. Laflamme, seconded by Mr. Fulton,

Resolved,—That Treasury Board Minute 658534, concerning the Bank of Western Canada be included in this day's Minutes of Proceedings and Evidence, and copies distributed to the members of the Committee. (*See Appendix TT*).

On motion of Mr. Coates, seconded by Mr. Laflamme,

Resolved,—That copies of a statement by Mr. Coyne, issued at Winnipeg on February 3, 1967, be distributed to members of the Committee and that the statement be included in this day's Minutes of Proceedings and Evidence. (*See Appendix UU*).

At the request of the Chairman, Mr. Coyne made an opening statement concerning the relationships of the Bank of Western Canada and British International Finance (Canada) Limited, and was questioned.

At 6.00 p.m., the questioning continuing, the Committee adjourned until 8.00 p.m. this day.

EVENING SITTING
(91)

The Committee resumed at 8.05 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Coates, Flemming, Fulton, Gilbert, Gray, Irvine, Lambert, Latulippe, Lind, Mackasey, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Reginal City*), Valade, Wahn—(19).

Also present: Messrs. Aiken, Grégoire, Lewis, Munro, Otto, Richard and Thompson.

In atendance: The same as at the afternoon sitting.

Questioning of Mr. Coyne was continued.

After a time, Mr. Coyne was discharged, subject to recall.

Mr. Stevens was called, made a statement and was questioned.

At 11.05 p.m., the Committee adjourned until 3.45 p.m., Wednesday, February 8, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

TUESDAY, February 7, 1967.

The VICE-CHAIRMAN: Gentlemen, I now see a quorum and I call this meeting to order.

It was decided at the adjournment last evening that the first speaker would be Mr. Lambert. I invite him to address his questions to the Minister.

Mr. LAMBERT: Thank you, Mr. Chairman. It had not been my purpose to continue the fascinating oscillations between Mr. Thompson and Mr. Grégoire and Mr. Latulippe at the opposite poles with the odd dip in towards Mr. Cameron somewhere, not in the centre but, I should say, somewhere in the left sector of the discussion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Say that again.

Mr. LAMBERT: This was the nature of the discussion last night but I propose, Mr. Chairman, something that I would like to be able to do with the Minister throughout the bill, and that is to proceed from the beginning of the bill to examine certain sections, concerning which prior witnesses—primarily the Inspector General of Banks and the Governor of the Bank of Canada—indicated that it was not within their jurisdiction or competence to comment on policy. I would not want to start examining the policy considerations for the amendments that have been proposed by the government in this bill.

The VICE-CHAIRMAN: I think this is appropriate, Mr. Lambert.

Mr. LAMBERT: Thank you, Mr. Chairman.

First of all, with regard to clause 2, the Definitions clause, subclause (1)g, some difficulty was experienced at the time of Mr. Elderkin's explanations of the changes as to the definition of a farm. I was wondering whether the Minister could indicate whether, since Mr. Elderkin's appearance before the Committee in October, there has been any determination of what is meant by a farm. This refers to subclauses (g) and (h) on page 2. It seem to me that there must have been some sort of yardstick in the contemplation of the framers of the bill, and of the amendment that is consequent upon or tied in with subclause (g), as to what is meant by a farm. Is it two acres? Is it five acres? Is it like the census, based on a minimum return from the production of agricultural or animal products?

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): If I may take it just for a moment, Mr. Lambert, I think this problem was put up to Dr. Ollivier and he gave a rather learned and expansive explanation of what, in his opinion, legislation up to date had considered a farm to be. I think his conclusion was that he could not go very much farther than that in making a definition.

Mr. LAMBERT: I am faced with the problem that because of the changes in clause 88(5) it is becoming very important to define what is a farm, and crops growing or produced upon the farm. For instance, with regard to bee-keeping referred to in subclause 2(1) (h) is it the keeping of ten hives that would classify you as a bee farmer for the purposes of this bill? Is it the keeping of two dairy cows, or 15 head of beef stock that you are raising on, perhaps, an acre under very intensive farming operation conditions? What is meant by a farm? This becomes very important under clause 88 (5).

Hon. M. SHARP (*Minister of Finance*): Mr. Chairman, perhaps Mr. Lambert could give us an outline of what he considers the practical problems that arise in this connection. The banks are making loans. Is it that the banks would have difficulty in deciding what was a farm?

Mr. LAMBERT: No, it might not but, on the other hand, the priorities to be established or varied by clause 88 (5) refer to crops growing or produced upon the farm. If a man is a farmer, I presume he has a certain status, or if those goods are produced on a farm they have a particular status under clause 88 (5). But if they are not so produced, or if the man is not so operating, then he has not got that status. Within the terms of this bill, a man's priorities, his legal rights and liabilities, are determined by the meanings fixed by the act, not by something extraneous.

Mr. ELDERKIN: Mr. Lambert, I cannot see any reference in clause 88 (5) to a farm.

Mr. LAMBERT: Well, it is in connection with priorities granted to—

Mr. ELDERKIN: Yes, but there is no reference to a farm. It just says "products of the soil from land owned or leased".

Mr. LAMBERT: Yes, but there is also a reference to farm. It is brought in, otherwise, you would not have that new definition.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is subclause (1)(c) of clause 2.

Mr. ELDERKIN: Oh, yes, I agree back there. I have only reference to clause 88(5) which Mr. Lambert mentioned.

If I might quote Dr. Ollivier, he said that he thought you would get into more difficulty in trying to define a farm than you would leaving it as it is.

Mr. LAMBERT: I think the minister does appreciate the problem that I am raising and if it is the decision to leave it in a rather inchoate and uncertain situation, then that is the decision.

Mr. SHARP: Mr. Chairman, I am inclined to agree that any effort to define a farm would be even more difficult than operating under the section without a definition, because if you are going to attempt to define a farm the complications would be enormous.

Mr. LAMBERT: You see the reason that I also tie it in is under subclause (2) of clause 2. There is a reference back to subclause (1)(g) of clause 2.

Mr. SHARP: May I ask this question, Mr. Elderkin. Have there been any problems arising out of having these kind of provisions in the act up until now?

Mr. ELDERKIN: Not that I have ever heard of.

Mr. LAMBERT: All right then, I will leave it at that.

I proceed, then, to clause 8 and this is the question of the method of incorportation and organization of branches. Bill No. C-102 envisages an entirely different system, the issuance of letters patent on approval by the Cabinet and then subject to a contrary petition signed by a minimum number of members in the House. Since this was a government decision, and since the Minister of Finance was then a member of the administration and apparently approved of Bill No. C-102, would the Minister please indicate the reason for the return to the original system.

Mr. SHARP: Yes, Mr. Chairman, I am happy to try to respond to Mr. Lambert's question.

This was a change of mind on the part of the ministers. I recommended to my colleagues that we should revert to the present practice of having applications go before Parliament for charters. In the light of the developments that had taken place during succeeding months, it seemed to me that it still remains very desirable that Parliament should have an opportunity of cross-examining the sponsors of chartered banks. This is an important privilege granted by Parliament and I believe that the sponsors of the bank should come forward, show their capacity, their financial position and their intent and, if I may say so, I think events in connection with the application for the Bank of Western Canada is some evidence that this is a salutary proceeding. If anything, my views and the views of my colleagues are confirmed on this point.

Mr. LAMBERT: In other words, it has now been realized that there have been far too many long range political implications in the system that is advocated under Bill No. C-102.

Mr. SHARP: Yes, I feel that the public interest is better served if the sponsors of banks are required to appear before Parliament to demonstrate their capacity to carry on the banking business.

Mr. LAMBERT: Is it fair to say, then, that the method envisaged in Bill No. C-102 perhaps was a mistake in the light of circumstances involving both the Bank of British Columbia and the Bank of Western Canada?

Mr. SHARP: I am inclined to believe that if the bill had been approved in its original form there would have been some reason for regret.

Mr. LAMBERT: I agree with the Minister.

I think, Mr. Chairman, I am getting close to the end of my time.

The VICE-CHAIRMAN: No, you may go ahead.

Mr. LAMBERT: Clause 10, subclause 4, I think is about the only place in the bill—and I am subject to correction—where Canadian citizenship is a condition of the act. So much has been said about Canadian residence that I was wondering why. The shareholdings would be quite all right in the hands of Canadian residents regardless of their citizenship, but when it comes to a matter of provisional directors, they must become Canadian citizens. In other words, a higher degree of Canadianism is required for provisional directors. For Canadian control we are satisfied with mere residence. I am wondering why there is the distinction.

Mr. SHARP: Perhaps just to reinforce the Canadian character of these banks. The same provision, I understand, is to be found in the bill with relation to permanent directors, as well as provisional directors covered by clause 10.

Mr. LAMBERT: Yes, I quite agree with that. If it is the desire to maintain Canadian control of our chartered banks, then, of course, a great proportion of the directors, must be Canadian citizens. If the same degree of control is wanted as to financial control, why not make the same insistence as to shareholders?

Mr. SHARP: This is a question of judgment, Mr. Chairman. The control of the banking operations certainly ought to be in the hands of Canadians. When it comes to shareholdings it is very difficult to establish in the first place the citizenship of corporations because, although they may be Canadian companies, their ownership may be in the hands of other than Canadians. I believe that as far as the control of the operations of banks is concerned, this act should do everything possible to ensure this control is in the hands of Canadians, rather than just residents who may have other citizenship.

Mr. LAMBERT: I agree with what is required under this clause, but I am wondering why there is a departure from consistency.

Mr. SHARP: Well, it is much easier to establish the citizenship of a director. It is very difficult, and would be very cumbersome indeed, to establish the citizenship of a shareholder. Indeed, I doubt whether it would be administratively possible without causing the greatest confusion.

Mr. LAMBERT: Yet the government comes along and says that there cannot be more than 25 per cent non-resident holdings. Is there no greater difficulty in establishing foreign residence than foreign citizenship?

Mr. SHARP: It is very much easier to establish residence than citizenship.

Mr. LAMBERT: I must confess that with the degree of insistence we have on Canadian banks being Canadian, the mere requirement of residence is meaningless.

Mr. SHARP: No, I do not think it is meaningless.

Mr. LAMBERT: But you will agree that mere residence does not mean that there shall be Canadian control. A man who lives here can be a citizen of any of the foreign countries, and if it is aimed primarily at Americans, many Americans live in Canada and have been living here for years. They are still Americans and, if they own the controlling shares, then the bank is not said to be Canadian owned or Canadian controlled.

Mr. SHARP: These are practical matters, Mr. Chairman. The government wants to do everything reasonable to ensure that these banks are essentially Canadian institutions. It is our judgment that it would be impossible to enforce a rule of citizenship on shareholdings. It is not impractical or impossible to enforce this on directorships. The result of this legislation will be that it will be practically impossible for any of our banks to be dominated by foreign ownership and it will be possible also to insist on the Canadian citizenship of a very high proportion of the directors. We can only do what is practical in this respect. We certainly would not want to introduce rules into the Canadian banking business that cannot be enforced, or that interfere with the relatively free

exchange of these shares on the stock market. I am sure you would agree, Mr. Lambert, that in all these matters we have to have workable rules. We know what our objective is and I believe that, everything considered, the present amendments to the Bank Act do ensure against our banks being dominated by other than Canadians.

Mr. LAMBERT: Well, you may say there may be difficulties as to individuals but I am sure that there is no difficulty at all about the establishment of ownership of the locum and the citizenship of foreign corporations. One is as equal as the—

Mr. SHARP: A foreign corporation is obviously non-resident.

Mr. LAMBERT: Yes.

Mr. SHARP: A Canadian corporation is a Canadian corporation, but it may also be owned by foreigners and, therefore, one cannot define citizenship as easily in the corporations as one can in individuals. Even with individuals there is the question of having to seek out the citizenship of individual shareholders or prospective shareholders which is a formidable administrative undertaking.

Mr. LAMBERT: I think we are heading into a little problem here, Mr. Chairman. I will yield to anyone who wishes to ask questions.

Mr. IRVINE: Mr. Chairman, may I ask a supplementary to something that Mr. Lambert brought up.

Clause 2(1) (h) reads:

"farm" means land in Canada used for...

various things, and then at the end it reads:

...the growing of trees and all tillage of the soil;

Is this not a little ambiguous? Could not this be misconstrued so that a man owning, perhaps, a large lot or a unit under the Veterans Land Act cou'd be considered a farmer? It could be minsconstrued in that sense. I am wondering whether the Minister does not think it would be wise to specify some size in number of acres, or something of that sort?

Mr. SHARP: Well, Mr. Chairman, as I said earlier, the banks are making loans and they are dealing with farmers and before granting a loan they will ascertain whether the man is engaged in farming. This gives some guide to the meaning of the word because now it includes bee-keeping, the production of maple products, the growing of trees and all tillage of the soil but it would be impossible, it seems to me, to say it shall not include certain kinds of activities if, in fact, it is farming that is being carried on. This, again, is a question of decision by the bank in making a loan and the taking of security. I do not think any practical problem has arisen. We have had similar provisions—although more restrictive—in the act before, and Mr. Elderkin says from his experience that the banks have not encountered difficulties in making loans to farmers and taking security.

Mr. IRVINE: You do not feel, then, that this term which is pretty sweeping, "all tillage of the soil," could be misconstrued to include very small holdings like a backyard garden, as a matter of fact?

Mr. SHARP: I do not imagine that a bank, in making a loan, would regard that man as a farmer.

Mr. IRVINE: Thank you, Mr. Chairman.

Mr. GILBERT: Mr. Sharp, have you or your officials given any thought to the classification of loans with regard to the Interest Act? The Bankers' Association set forth a list of the different types of loans, such as business loans and mortgage loans, and I was wondering whether you have given any thought to imposing upper limits with regard to these types of loans because, as you know, there is only the one interest rate under the act. That interest rate does not apply to mortgage loans, it is quite true, but it does apply to business loans and consumer loans, and I was wondering if you have given any thought to classifying these types of loans and imposing limits with regard to the type of loan?

Mr. SHARP: There is one practical respect in which there are limits on these loans and that is under the farm improvement loans and under other special legislation where the rate is specified.

Mr. GILBERT: That is true.

Mr. SHARP: That has been put in because the government has provided a guarantee and in return the banks were expected to make these loans at somewhat less than the current market rate, or at the current market rate whatever the conditions were at the time. I do not think it would be practical to place a ceiling on particular loans for the same reason that these special acts I am speaking about have run into difficulties. If you place a ceiling on a special kind of loan it might have the effect of discouraging the banks from making those loans because they would say: "Well, I can get a better return by making my loans for other purposes that are not subject to a ceiling." It is the same argument that has been raised about having a differential monetary policy in various parts of the country. It has been urged that the Bank of Canada ought to establish a different rate of interest in, say, the less developed parts of the country than in others. The chief argument against that, of course, it that this would discourage the making of loans in that area; and I believe the same sort of general argument would apply to placing a ceiling on particular kinds of loans.

Mr. GILBERT: At the moment, Mr. Sharp, you have a ceiling with regard to business loans and consumer loans, and the way that the bank avoids it is by the use of compensating balances for business loans and service charges for consumer loans. Why cannot we be more forthright and be specific about these different classifications?

Mr. SHARP: Because I hope it is the view of the Committee, as it is of the government, that these ceilings, and so on, are not serving the public interest; that it would be better if the banks were in a position to adjust their rates to the requirements of the various kinds of borrowers, and the risks and costs involved. I think this will result in the banks providing a better service to the public and enabling those borrowers who are now required to go outside the banking structure to be able to come to the banks and get accommodation at lower rates.

Mr. GILBERT: Do you think that the new act will avoid compensating balances with regard to business loans and service charges with regard to consumer loans?

Mr. SHARP: I would hope that the banks would have less reason to resort to such practices, but even in the United States, where there is no ceiling on bank

interest rates or loans, the banks do employ compensating balances. That is a matter of business practice at the banks. I do not know whether it is better to have it expressed in the interest rate or in some other form. We are taking measures in this act to require the revelation of the nominal annual rate to various kinds of loans, presumably corporations know what they are doing. They take into account all the costs when they are deciding whether they are going to borrow or not, or to which bank they are going to give their business.

(*Translation*)

Mr. GRÉGOIRE: Mr. Minister, you admitted yesterday.

Mr. SHARP: Continue, please.

Mr. GRÉGOIRE: The Minister admitted yesterday that in the process of growth of the money supply and by their share in this growth, chartered banks actually create this money supply. Mr. Minister, I would like to get an explanation of this monetary system, I am not trying to convince you, I would like to get a further explanation of the system. When the Bank of Canada decides to increase the money supply, say, by $100, it purchases bonds for about $8 and then this $8 goes into the vaults of the chartered banks, at which time the chartered banks can multiply it by 12½ by creating a credit of $92 to make an increase of $100. Is this the way the money supply is increased?

(*English*)

Mr. SHARP: I understand that when the Bank of Canada puts cash into the hands of the banks they are under great pressure to find some means of increasing their liabilities, so I hope that when the Bank is increasing the money supply, the banks respond by making more loans and otherwise increasing the volume of money and demand in the economy. That is the purpose. Similarly, when the Bank of Canada contracts the money supply, the banks then have to withdraw in order to retain a legal ratio between their cash and their liabilities.

Mr. GRÉGOIRE: In a proportion of twelve to one?

Mr. SHARP: Yes. The banks have their own ideas of what is the proper proportion: the law specifies the minimum.

Mr. GRÉGOIRE: Then the law specifies the proportion of twelve to one?

Mr. SHARP: A minimum proportion.

(*Translation*)

Mr. GRÉGOIRE: Is there anything to prevent the Bank of Canada from creating 100 percent of this money supply increase, which takes place every year, and instead of controlling only 8 percent and allowing the creation of the other 92 percent by the chartered banks? Could not the Bank of Canada, anticipating public growth, create the whole money supply increase each year and in the same amount as is the case now?

(*English*)

Mr. SHARP: Well, Mr. Chairman, it would be perfectly possible, I suppose, for Parliament to require 100 per cent backing of all loans made by the chartered banks in the form of cash. It is perfectly possible; I do not recommend it.

(*Translation*)

Mr. GRÉGOIRE: Mr. Chairman, do not savings or trust companies or Caisses populaires, under their charters, have the same privileges as the chartered banks in this field of creating credit?

(*English*)

Mr. SHARP: They are not required by law to have a cash reserve.

Mr. GRÉGOIRE: But can they operate in making loans before they receive the deposits like the chartered banks are able to do, as you mentioned yesterday?

Mr. SHARP: I did not say that yesterday. You are using what I should call the Social Credit shorthand and I would like to disassociate myself from any such implications—

Mr. GRÉGOIRE: I would like a record of that, Mr. Chairman.

Mr. SHARP: —without too much hesitation. Perhaps I should have hesitated longer knowing I was giving the reply to you, Mr. Grégoire.

Mr. GRÉGOIRE: But you gave it.

Mr. SHARP: Yes, and it is perfectly accurate, but the inference that you are drawing is not accurate. What I said yesterday was that the banks, with a supply of cash, are in a position to extend loans safely because they have sufficient cash to meet any requirements there may be on the part of the public; and those loans, in turn, are to a large extent—or perhaps fully—deposited in the banks. That is the way in which the system functions. I have no hesitation in saying that.

Mr. GRÉGOIRE: Can the trust companies and the savings banks do the same kind of operation?

Mr. SHARP: I doubt it very much. These are savings institutions. They collect deposits from the public and make loans on the basis of these deposits. They are not in the banking business and they do not have even the privileges that are given to the banks, nor are they required by law to have a certain cash basis upon which they cannot earn anything. Now, it may be that Parliament should consider whether trust and loan companies should have a cash reserve, but that is a separate question I hope, in due course, we will direct our attention to.

Mr. GRÉGOIRE: Now, you say you would not recommend that the chartered banks have 100 per cent cash reserves?

Mr. SHARP: No.

Mr. GRÉGOIRE: That is not what we would recommend, either. The savings banks do not have any cash reserves, but when they make loans they have the deposits first, while the banks make loans and then —and as a natural course— these loans are deposited in one or another chartered bank. If the Bank of Canada was creating that money instead of the chartered banks, would not the government of Canada then, and all other public governments, be entitled to borrow directly from the Bank of Canada on a debt free system instead of going to the chartered banks to borrow the money the chartered banks are creating?

Mr. SHARP: In my opinion, Mr. Grégoire, that would not be good public policy. I would consider it a very inferior type of system and one that would not serve the public as well as the present system of banking.

Mr. GRÉGOIRE: But if the Bank of Canada was creating the money supply instead of the chartered banks, then the government of Canada would be able to borrow it free of interest, make some public works with it and naturally, in the course of events, this money would go back to the chartered banks. But it would have profitted to Canada because the government would have been able to borrow without interest and you would not have the problem today of $1,200 million to pay in interest on the debt of Canada.

Mr. SHARP: Well, I hope, Mr. Chairman, it is understood that as far as the money we borrow from Canadians is concerned, this is all in the family. The government of Canada just owes to its citizens a return to those citizens who have foregone the spending of that money, and have instead turned it over to the government for spending. I think it is quite appropriate that such people should get some compensation for having turned the money over to the government. As far as foreigners are concerned, I know of no method of Social Credit that is going to prevent us from paying our debts to our foreigner lenders. Indeed, I am sure that they would not be at all impressed by the argument which has been put forward by Mr. Grégoire.

Mr. GRÉGOIRE: I did not say that at all, Mr. Minister. I said that if the Bank of Canada created the money instead of the chartered banks, it would allow the government of Canada to borrow—not from the public and pay interest; that is not what I said. I said it would allow the government of Canada to borrow this money created by the Bank of Canada from the Bank of Canada instead of the chartered banks and to do it without interest.

Mr. SHARP: Yes, but the Bank of Canada is just the public.

Mr. GRÉGOIRE: Yes, and this money borrowed by the government of Canada would be used for public investments, not for private investments.

Mr. SHARP: But it is quite impossible, by any monetary sleight of hand, for the government to spend money without placing a burden upon the taxpayers of the country. If this were possible, every country in the world would have adopted it e'er now, but they have not—not one of them. The reasons are very practical and indeed, in my judgment, this would result in a loss of confidence in governments. I believe it is quite proper that when the government asks people to lend it money—to forego the use of it themselves—they should get some compensation for it, and I do not believe this in any way imposes a handicap upon the people of the country. Indeed, I think it is a proper distribution of the burden of public expenditures.

Mr. GRÉGOIRE: Mr. Minister, you say that it would not be appropriate for the government to borrow money without imposing a burden on the people of Canada. The money that the Bank of Canada would be able to lend represents an increase in the money supply and this increase comes because the people of Canada and Canada as a whole have developed. This increase in the money supply comes from the development of Canada. This is only that part that the Bank of Canada would be able to lend to the government of Canada. It would not represent a burden then, it would represent the development of the whole of Canada made by the people of Canada. Would that not be better than a burden, if the people of Canada can develop the country, and it represents a natural development of the country? Why impose a second burden on the people of

Canada and let the chartered banks profit from this development of Canada, because when the chartered banks increase the money to raise supplies it is because Canada itself has developed, not the banks. You give the profit of all this development to the banks and the people of Canada do not profit by it.

Mr. SHARP: I think they do. I cannot agree with the assumptions underlying your question at all, Mr. Grégoire. Canada has been developing very rapidly and all the fruits of this development have gone to the people of Canada. The whole fruits of our increased output have gone to Canadians in one form or another. You are suggesting, I take it, that those people who have foregone their own use of the money and turned it over to the government of Canada to be used for public purposes should not receive compensation. I cannot agree with that.

Mr. GRÉGOIRE: I do not say that, sir. I say that every year, because of the increase in the gross national product, there is an increase in the money supply, and this increase is created by the chartered banks. If it were created by the Bank of Canada instead, the Bank of Canada would lend to the government of Canada instead of the chartered banks.

Mr. SHARP: All it would do would be to redistribute the burden over the Canadian people. That is all. To the extent that the government uses resources, it must be the resources of the people. There are no other resources available. The system that is now in effect results in a certain distribution of those resources. As I have been saying recently, I have been inclined to think that interest rates have been too high and I would like to have seen the redistribution a bit different. But we are living in a world of high interest rates from which we cannot divorce ourselves. I do not believe, Mr. Grégoire, that it would be possible, as I said before, to alter the physical facts by any monetary sleight of hand, which are that we have a certain output to dispose of. Our policy should be such as to maximize that output, but all those benefits inure to the people of Canada and they do not represent any burden on them.

Mr. GRÉGOIRE: This is my last remark on the subject, Mr. Minister. When there is an increase in the gross national product there is an increase in monetary supply. This increase, except for 8 per cent, is created by the Bank of Canada, and 92 per cent by the chartered banks. It is a private institution which will create the money representing the development of the whole of Canada, and this increase that they will have created will be lent on the debt system instead of being created by the Bank of Canada, which is an institution of the people of Canada, on a debt-free system when it ought to represent the interests or the development of the whole of the country. That is why I cannot agree with the system. Every development of our country is represented by a debt while it should be represented by an asset.

Mr. SHARP: Every development of the country adds to the profit available for the people. In the course of development, certain financial arrangements are made between the borrower and the lender. These arrangements are perfectly proper and natural. The fact that our banking system operates with a cash reserve is not the vital part of the system. That is the mechanism by which banks operate and by which the financial system operates. As Mr. Grégoire probably knows, it began a very long time ago when merchant bankers carried on operations somewhat different from today but, essentially, the principle is

the same. The banks must retain a certain amount of cash to meet the needs of their customers for cash.

That is the essence of the system. And, on the basis of that cash reserve, the banks engage in the financing of business or of consumption as the case may be. For that service they make a charge. That is their earning. On the deposits side they pay interest, and they have other charges in connection with the operation of their banks. There is nothing extraordinary about that, and I would have thought the fact that this is a universal system which operates well in all societies—including, I gather, even the Soviet Union—that it has a great deal to commend it. I can only repeat again, Mr. Grégoire, that if it were possible to operate in a better way, I am quite sure many countries of the world would have adopted such a system. The fact that they have not I think, indicates the common sense of mankind is on the side of the kind of financial institutions that we have today. This is not saying that our financial institutions necessarily operate as they ought to operate. This bank bill is some reflection of the fact that we think that improvements can be made. I am sure banks themselves are improving their practices and, I hope, are doing more to become efficient and to make fewer charges for their services. However, there is competition in the banking system. I hope there will be more and, in that way, I do not believe the kind of charges made represent anything more than the burden that must necessarily be imposed upon borrowers when they ask for the use of money in order to increase their investments or to finance their consumption.

Mr. GRÉGOIRE: Then you would not agree that the Bank of Canada should create increase in money supply, instead of the chartered banks?

Mr. SHARP: Well, I believe that the Bank of Canada from time to time should increase its note issue.

Mr. GRÉGOIRE: By only 8 per cent and leave the other 92 per cent to the chartered banks?

Mr. SHARP: It is up to the banks to decide what proportion of cash they feel they should carry in order to carry on their business. In this Bank Act we have insisted that there should be certain minimum cash requirements in order to protect the public against the possibility that the banks might not be prudent enough, but that is all.

Mr. GRÉGOIRE: The point is that you will not agree that the Bank of Canada should create all increase of money supply instead of what is being done today.

Mr. SHARP: I consider that a very cumbersome and inferior system.

Mr. GRÉGOIRE: You would consider it an inferior system if the Bank of Canada, a public institution, were to create all the increase in money supply?

Mr. SHARP: I would consider it inferior, cumbersome, costly, and generally very bad for Canada.

Mr. GRÉGOIRE: You prefer to see it in the hands of private enterprise?

Mr. SHARP: I prefer the present system. The present system probably can be improved—I hope it can. But I think the system that Mr. Grégoire is putting forward is inferior and would very quickly be abandoned if anybody was stupid enough to adopt it.

Mr. GRÉGOIRE: Then, Mr. Minister, you will just have to continue to increase the debt and we will continue to pay the interest.

The VICE-CHAIRMAN: I do not have any other names on my list of speakers. On behalf of the Committee, Mr. Minister, I thank you for your appearance here and the great importance of your testimony to the study of this important legislation.

Mr. FULTON: Mr. Chairman, are you suggesting that this is the last occasion on which the Minister will be appearing?

Mr. SHARP: May I say in this connection, Mr. Chairman, that I think you would want me to appear before you in connection with the Bank of Canada Act and also in connection with the deposit insurance bill. I am prepared to appear. May I say, Mr. Chairman, that I hope this Committee will give some priority to deposit insurance and I suggest that the bill now being referred to the Committee should be discussed as soon as possible. The Committee will have noticed that the Ontario government is proposing similar legislation in the form of a holding operation pending the approval of the federal system. The government believes that it would be very much in the interests of all concerned for the federal system to come into effect as quickly as possible. So, I do hope that the Committee will be able to give some priority to that as soon as they have some room on the agenda.

Mr. FULTON: We might reserve our position with respect to the Bank of Western Canada. I think we might well want to ask the Minister some questions after we have heard what the two disputants have to say.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I think the understanding yesterday was that we would hear the Minister after we have heard Mr. Coyne and Mr. Stevens.

The VICE-CHAIRMAN: If necessary, yes.

The meeting is adjourned until four o'clock this afternoon.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I would like to call this meeting of the finance committee to order.

At the present time we are at the concluding stage of our public hearings with respect to our order of reference from the house, which is to study and report on the proposed new Bank Act, the proposed amendments to the Bank of Canada Act and the new Quebec Savings Bank Act.

Our first witness today is Mr. James Coyne, President of the Bank of Western Canada, who has made certain public comments which the steering committee felt should be explored further in this Committee with respect to their having some possible relevance to our present inquiry. Following Mr. Coyne's statement, and any questions which the members may have to pose to him, we have also invited Mr. Stevens to appear, who is also involved in this particular issue, to comment with respect to the matters before us.

I think that I have already arranged to distribute to the members of the Committee the Treasury Board minute with respect to the licence of the Bank of Western Canada.

Mr. LAMBERT: Mr. Chairman, I am wondering whether it is deemed to be a precedent that any time the Bank Act is under consideration or there are any amendments to it, if there is an internal dispute within a chartered bank that this Committee will provide a forum for airing the dispute.

The CHAIRMAN: I think you have raised a very good point. As I think the members of the Committee will recall, before causing Mr. Coyne and Mr. Stevens to be invited to appear today I consulted informally with those members of the steering committee who were available in the house after the question period and the agreement was that this invitation should be extended. I think, though, that the point is well taken and I think we should ask Mr. Coyne and Mr. Stevens, and also the members of the Committee with respect to their questions of these gentlemen, to attempt to relate their comments to what I might describe as our legislative purpose. I will certainly be willing to exercise any prerogatives I have as Chairman if I feel that they are departing in a broad way from this general ambit. I also invite the members of the Committee to bring to my attention any occasions on which they feel that our witnesses today are departing from our order of reference.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I suggest, Mr. Chairman, in connection with Mr. Lambert's statement that we are not merely concerned with an internal dispute between these institutions but with the relationships between this institution and the Government of Canada because of the special provisions that were provided for this particular institution. So, for that reason I think it does come within our purview of deliberation.

The CHAIRMAN: If I interpret Mr. Lambert's remarks correctly, I would think that you and Mr. Lambert are in agreement in that regard. I think it is incumbent upon all of us here, the members of the Committee, other members in attendance and our witnesses to attempt to keep both the presentation and the questioning within the general ambit that both Mr. Cameron and Mr. Lambert have outlined. As I say, I would invite the Committee to bring to my attention any occasions when they feel that there is a departure from our legitimate field of activity.

Mr. Coyne, as I was about to say, I have taken the liberty of distributing to the members of the Committee the Treasury Board minute in question and also what I understand to be the press release which you issued and which led to your being here today. I will invite you to make such introductory comments as you see fit, following which I will invite the members of the Committee to pose such questions as they deem desirable.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, you made reference to a press release. I do not know about the other members of the Committee, but I do not have a copy of it.

The CHAIRMAN: I think our clerk is just coming back into the room and I will ask her to distribute these. I thought they had been distributed.

Mr. THOMPSON: Mr. Chairman, you also made mention of the copy of the Treasury Board minute which was tabled on January 18. Are there copies of that minute available?

The CHAIRMAN: Yes, we have copies, and I had assumed that they had been distributed earlier today.

Now, gentlemen, I think before calling upon Mr. Coyne it would be useful if we had a motion to make the Treasury Board minute and the press release, if Mr. Coyne will identify it for us, part of our record. While he is looking at the press release, I will first invite a motion with regard to the Treasury Board minute.

Mr. LAFLAMME: I so move.

Mr. FULTON: I second the motion.

(*English*)

The CHAIRMAN: We are in agreement on the adding of the Treasury Board minute to our record.

Motion agreed to.

Mr. Coyne first identifies for us the lengthier page headed, "Statement by James E. Coyne" and it is dated at Winnipeg, February 3, 1967. Both pages bear the same date. The statement is the document which begins: "I have resigned—". The shorther page is the continuation and they are merely stapled together out of order. So you identify these pages as the statement which led you to being with us today?

Mr. JAMES E. COYNE (*President, Bank of Western Canada*): Yes, I do.

The CHAIRMAN: The committee understands that inadvertently they were put together in the wrong order. In as much as Mr. Coyne has identified this document as the statement in regard to the matter that brings him before us, I would also invite a motion from the Committee that this be printed as part of our record.

Mr. COATES: I so move.

Mr. LAFLAMME: I second the motion.

Motion agreed to.

Now, Mr. Coyne, may I invite you at this time to make such introductory comments as you see fit.

Mr. COYNE: Mr. Chairman and gentlemen of the Committee, I am here because you asked me to come. I made a public statement on February 3 at about 3.30 or 4 o'clock in the afternoon eastern time and in the last two paragraphs of the main statement I said:

> I feel these matters must be made known to the people of Western Canada and the rest of the country. I am now convinced that no group of persons or companies such as this should be permitted to exercise control over a Canadian financial institution, whether federal or provincial.
>
> I wish to recommend to Parliament that, before the new Bank Act is finally passed, the prohibition upon voting stock, in excess of 10 per cent of the total, be put back into force for new banks, just as it is for the older

banks. In other words, the authority given to the Treasury Board or to the Governor in Council to grant exemption to majority shareholders in new banks should be reversed. In addition, there should be provision that no American bank shall be entitled to hold any shares in a Canadian bank, and certainly not any voting shares.

Those are my personal views which I put on record.

I also understand that you have committed to your Committee a bill respecting deposit insurance. One of the things which has concerned me in the last few weeks—I have been rushing back and forth between Winnipeg and Toronto and Ottawa and I have not been able to spend much time on my own business—has been the desirability of getting deposit insurance into operation just as soon as possible because of all the commotion which has been going on in financial markets for some time now, and especially since the Prudential Finance matter came into public view some weeks ago.

My thoughts in respect to all these matters covered the feelings I had as to the management of the BIF companies themselves, the feelings I had as to what the impact of those and other matters would be on the Bank of Western Canada and this problem of how could matters of this sort be dealt with, if necessary, in a public forum without further unsettling public confidence in financial institutions which might have no connection whatever with the ones under consideration. For that reason, I wish to say to you that I have indicated to the public authorities that I consider it very important that this idea of deposit insurance, which is a very sound one in itself and which I have advocated for ten years or more, should be brought into force just as soon as you gentlemen can do so.

These are matters on which you may perhaps wish to examine me. I did not come here to seek a forum for an internal dispute respecting the affairs of any company; I came here because I was requested to do so and I issued my statement because, after long and anxious consideration, I felt this was the only way I could properly serve the public interest and that I had a duty to do this. I do not know what you want me to say or how far you want me to go. There are many different ramifications and matters involved, some of which have evidently been referred to in the Toronto papers this afternoon—although not by me—and perhaps the best thing would be if I just say that I am at the disposition of the committee, Mr. Chairman.

The CHAIRMAN: Mr. Laflamme?

Mr. LAFLAMME: When did you resign from the board of directors of British International Finance (Canada) Ltd?

Mr. COYNE: I posted my letter of resignation in Toronto on the night of Wednesday, February 1.

Mr. LAFLAMME: Was it after a meeting of the directors?

Mr. COYNE: Yes.

Mr. LAFLAMME: In the statement that you have made public you said. In connection with the Bank of Western Canada, they have failed to make good their subscription for shares to the extent of about $1,500,000, they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made . . . As far as I know, the Bank of Western Canada has not yet started its operations.

Mr. COYNE: It has hired some people to help it get organized, people who will be operating the bank when it commences operations.

Do you mean has the bank done anything contrary to our charter? No, I do not believe so and it will not do anything contrary to the charter as far as I am concerned.

Mr. LAFLAMME: I have no other questions for the moment, Mr. Chairman.

The CHAIRMAN: On my list I have Mr. Fulton followed by Mr. Thompson, Mr. Lambert, Mr. Cameron and Mr. Macdonald.

Mr. FULTON: I should like to ask you Mr. Coyne, whether the remarks you made just now with respect to deposit insurance, and your recommendation that it be brought in as early as possible, are made in your capacity as President of the Bank of Western Canada and whether we are to assume, therefore, that it is of particular importance to your institution as such or whether you were merely expressing a general opinion in the light of your knowledge of the field of the operation of financial institutions generally?

Mr. COYNE: The matter is not of any direct or urgent importance for the Bank of Western Canada except in the sense that it will improve the entire financial atmosphere that may exist at the time the bank commences operations. My main concern is for the public interest in this matter because there have been some shocks to confidence and the more discussion there is of these matters in public the more desirable it is that as much reassurance as possible be given to the public. Whenever I have been asked questions tending in that direction I have done my best to give that assurance, but the best assurance of all, of course, is for the public authorities to say what they can say.

Mr. FULTON: Is it your feeling as a banker that membership in the system should be made compulsory for federally-incorporated banks?

Mr. COYNE: Yes, I think so; I think it should be all-inclusive.

Mr. FULTON: In your press statements you say:

> In connection with the Bank of Western Canada. . .

I omit one portion, and then you continue:

> . . . they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the Committees of the Senate and the House of Commons. . .

I take it you have evidence to support that statement?

Mr. COYNE: I did not bring any documents with me to support it. I am willing to answer questions about it.

Mr. FULTON: As I recall the statement was made to the press. This has been denied. It has been denied that there was any intention—of as explicit a nature, at least, as you seem to imply here—or any attempt to bring about the transaction to which you refer. That is why I asked about evidence; what position is the committee in?

Mr. COYNE: Again, Mr. Chairman, I am prepared to give evidence orally. I am prepared to say upon what basis I made that public statement.

Mr. FULTON: I would think that this is one matter which is within the ambit of our terms of reference and I would be interested in knowing, because I think this committee should know if that attempt was made.

Mr. COYNE: I have been aware for some weeks, and possibly a little longer than that, that the management of the BIF group were expecting that the bank would somehow engage in transactions with them of a character that would help their financial position. Without going into all the past history and so on, the matter did come up at a meeting of the Board of Directors of the Bank of Western Canada on December 16. At that meeting the Chairman of the Board, who is also the President of British International Finance (Canada) Ltd., recited a number of matters which bore on the fact that his companies were not able to obtain financing from other banks in Canada, which he suggested was due to the fact that the other banks resented his company having sponsored the starting of a new bank, and that he thought it was a matter for the directors of the new bank to decide whether or not they could and would provide the financial backing to his companies which he could not get elsewhere.

Two propositions were put forward, both of which would have required the approval of the Minister of Finance in Ottawa if the board of the bank were prepared to support them, and he said at that meeting, that he wanted both of these propositions to be decided or an opinion of the Board reached at that meeting.

The first proposition was that the bank should be prepared to go to the Minister of Finance and say they were willing to make a line of credit available to the British International Finance companies equal to 10 per cent of the capital and reserves of the bank. This matter came up in such a precise and definite way that the vice-president of the bank, Mr. W. G. Brown, remarked several times in the course of the discussion that he thought it was in contravention of that section of the Bank Act,—I think it is section 75—which says that no director may be present during consideration of a loan to any company of which he is a director. Notwithstanding that, the discussion went on until it was apparent that the western directors in particular were hostile to the idea.

A second point that was brought up at the same time was that the bank should engage in a particular transaction involving the purchase of a portfolio of finance company paper amounting to about $800,000 from one of the BIF companies. I opposed both of these suggestions, I need hardly say, and the other Western Directors to whom this all came as a considerable surprise, in that form and so on, resisted these suggestions.

At a later stage in the discussion it was, therefore, proposed that not that the board would themselves go to the Minister of Finance asking for his approval of transactions of this sort, but that the board would approve an approach to the Minister of Finance by the President of British International Finance, in that capacity, not in his capacity as a director of the bank. This proposal, too, was resisted and finally abandoned, and the only minute that was made of the matter finally was that the President of British International Finance had informed the board that he proposed, in his capacity as President of British International Finance, to approach the Minister of Finance for clarification of the terms of the Treasury Board order and of his attitude about matters of this sort.

This proposal, if it had been accepted in the way in which it originally came up, would have put this matter squarely on the doorstep of the Minister of

Finance and the making of the proposal and its approval by the board, if they had approved it, I felt were directly contrary to statements that I and the President of British International Finance had made when appearing before Committees of the two Houses of Parliament.

Mr. FULTON: I take it that the only decision reflected in the minutes of this day, as you have outlined it, did not contain any authority to pursue the transaction or to—

Mr. COYNE: That is right.

Mr. FULTON: —approach the Minister with an amendment of the Treasury Board Minute.

Mr. COYNE: The board members were very embarrassed by the whole matter and felt that the best way out was to more or less ignore it, as if it had never happened, for the time being.

Mr. FULTON: It is in the category, then, of a suggestion about which you have strong views, brought forward by a senior member of the board of directors—the chairman, you have told us—and discussed in the board, but rejected.

Mr. COYNE: That is correct; and not pressed to a vote in consequence of the opposition which developed.

But that was not the end of the matter. Every time I have been in meeting with members of the B.I.F. group subsequent to that the same point has been raised again and again in an endeavour to put pressure on me to agree that something of this sort should be done.

Mr. FULTON: How many meetings?

Mr. COYNE: I could not say; I am sorry.

Mr. MORE: Mr. Chairman, could Mr. Coyne identify the "president"? He was talking about the "president". Could he identify him for the record?

The CHAIRMAN: The President of British International Finance?

Mr. COYNE: Mr. Sinclair Stevens.

Mr. FULTON: He is also the Chairman of the Board of Directors of the Bank of Western Canada?

Mr. COYNE: Yes.

At the subsequent meeting of the board on January 20, Mr. Stevens referred to the matter again in such a way as to suggest that he had not originally made any proposal.

In discussing this matter afterwards the western directors told me that they were completely in disagreement with that second statement.

Mr. FULTON: You told us that there were a number of meetings at which this was discussed. Were these official meetings of the Board of Directors, or of committees of the board, or were they, in the major part, informal discussions between individual directors?

Mr. COYNE: If you mean the discussions which were carried on by B.I.F. people with me to which I referred, they were certainly not meetings of the

board; they were largely in Toronto, although not entirely, and would arise when I was in Toronto primarily for a discussion of the affairs of the B.I.F. companies on which I was still a director.

Mr. FULTON: At how many meetings of the Board of Directors of the bank was this matter discussed?

Mr. COYNE: It was discussed at the meeting of December 16, and referred to briefly at the meeting of January 20.

Mr. FULTON: How many other of the western directors of the bank are also directors of the B.I.F. group of companies?

Mr. COYNE: It depends on a definition there. The two directors from Alberta are directors of a trust company in Alberta which is not, properly speaking, one of the B.I.F. group, although the B.I.F. group have a 30 per cent interest in it and an option on further stock.

Two of the directors from Manitoba, not counting myself, have been directors of a trust company and of a financial company in Winnipeg, which are part of the B.I.F. group, but their role there has been inactive for some time, and I think at least some of them have resigned; I am not sure about that.

The two directors from Saskatchewan and the two directors from Vancouver, so far as I know, have not had any connection with companies in the B.I.F. group; and two of the Winnipeg directors, similarly, have not had any such connection.

Mr. FULTON: Your next statement in the press release continues:

> They...

—that is, the B.I.F. group and the Wellington financial group—

> ...are presently engaged in a borrowing operation with American banks which involves the giving of an option on 10 per cent of the total shares of the Bank of Western Canada and various arrangements designed to tie the management and operations of the bank to the operations of these American banks, again contrary to statements made when applying for a charter.

In the same way, Mr. Coyne, could you tell us if you have evidence to support that statement?

Mr. COYNE: Yes. In a way, this goes back quite a long time because the senior companies in the B.I.F. group have been looking for, and endeavouring to raise, money by way of loans for some months, partly, no doubt, in order to fulfill their subscription to the Bank of Western Canada and partly for other purposes. In the course of their efforts, or negotiations in that regard, the suggestion has from time to time, been made to me by Mr. Stevens that his negotiations with other banks, for example, in the United States, or in Canada, possibly, would be aided if the Bank of Western Canada would deposit some of its funds with those other institutions. This suggestion was first made in fairly definite form in September in a discussion with me and Mr. Maxwell Bruce, another director of the bank and of the Wellington Financial Corporation. I said that that would not be a proper thing for the Bank of Western Canada to do, and, as I recall it, Mr. Bruce agreed with that opinion of mine.

The idea has been in the air in the course of several discussions later than that, and it came to a head on Wednesday, February 1. Earlier than that I had been told that a line of credit had been arranged with some American banks. I frankly did not believe anything concrete would come of that. I did not believe any American bank would lend money to Canadian financial institutions, or to these particular Canadian financial institutions, under the present circumstances, and in the circumstances of those companies, certainly not if the bank knew those circumstances and if proper disclosure had been made to them.

In the course of a proposal coming before the meetings of the Boards of Directors of British International Finance and of the Wellington Financial Corporation on Wednesday, February 1, it was revealed for the first time to the directors and to me that these negotiations with a group of New York banks had been predicated upon the idea that they would be allowed, if they wished, to buy stocks in the Bank of Western Canada from the B.I.F. group and to be put in a position where they could engage in financial transactions, perhaps, in lending in Canada and, perhaps, other transactions, with the Bank of Western Canada, again if they would make credit available, not to the Bank of Western Canada but to the British International Finance companies.

I asked the man who had been actively engaged in these negotiations in New York if he would have been able to obtain a loan from these American banks for the purposes of British International Finance if he had not, as he thought, been in a position to offer them some advantages having to do with the Bank of Western Canada? He replied that he would not have been able to and would have been an idiot even to try to get a loan from them on the strength of the position of these companies alone under the present circumstances which, admittedly, were tight money conditions.

I told him and Mr. Stevens that neither of them had any authority—certainly not from the Bank of Western Canada, nor even from Wellington Finance or British International Finance—to make any commitment or to offer any advantages or inducements to this American bank—one in particular—in connection with the negotiations they were conducting. The man who had been doing the negotiating said that he had committed Wellington Financial Corporation to this—that we were committed—by the establishment of a line of credit—which I believe has not yet been utilized—with a New York bank and that as a condition of that and as an inducement for that, we were committed to the idea that they would have an option to buy stock, either in the Bank of Western Canada or, if they wanted, in British International Finance itself.

Mr. FULTON: I take it from what you have said that these discussions did not go on within the board of the Bank of Western Canada?

Mr. COYNE: This one did not.

Mr. FULTON: The facts you have outlined did not come to you in your capacity as President of the Bank of Western Canada. Is that correct?

Mr. COYNE: I was in the unhappy position of having two capacities all through this. Of course, several people were in that position; but I was made unhappy by having a dual role. I had to wear two hats until I could decide where my primary responsibility lay.

Mr. FULTON: Was disclosure of this made to other directors of the Bank of Western Canada, who were not directors of this other group of companies?

Mr. COYNE: It was made by me.

Mr. FULTON: At a board meeting?

Mr. COYNE: No; we have not been able to have a board meeting; we cannot bring the whole board together at very short notice. In any event, I felt I had to make my own position clear.

One of the things I had to do was to resign from the British International Finance Companies which my western directors of the bank had been urging me to do anyhow; and the other was I wanted to make clear to all concerned that the Bank of Western Canada was not going to be used, and the American banks should not think that it was going to be used, as a pawn in the financial plans of the British International Finance companies.

Mr. FULTON: Was the suggestion, as far as you have knowledge of it, that the Bank of Western Canada should give this stock option, or that the option should be given by one of the other companies?

Mr. COYNE: That the option would be given by one of the other companies, but that the Bank of Western Canada should be induced to enter into banking relationships with this American bank.

It was said that the Bank of Western Canada would find that this American bank would participate with it in loans that were too big for it alone to make in Canada and would provide it with "know-how" and even with staff.

Mr. FULTON: I think, Mr. Chairman, I am having regard to the time, but I would like to ask a final question.

With respect to documentary evidence, Mr. Coyne, if there should be a direct conflict of testimony here am I right in taking it from what you have said that apart from the one minute of the Bank of Western Canada's board, referred to in my earlier questions, there would be little, if any, documentary evidence by way of minutes of directors' meetings that could be produced to this Committee?

Mr. COYNE: I will be glad to produce the minutes of the directors' meetings, for what they are worth, but I think you are correct in your statement.

The CHAIRMAN: Thank you, Mr. Fulton. Mr. Thompson is next on my list.

Mr. THOMPSON: Mr. Chairman, I would like first to ask Mr. Coyne about remarks he has already made to Mr. Fulton regarding the discussions within the British International Finance group about asking the Minister of Finance to withdraw the agreement that was drawn up by the Treasury Board on August 3 and which was tabled in the House on January 18.

Do you know if at any time a request was made of the Government of Canada or of the Minister of Finance that this should be considered, or was the thing dropped in the discussions of the board of the B.I.F. group itself?

Mr. COYNE: You are asking if a request was made for an amendment of the Treasury Board order?

Mr. THOMPSON: Was an approach ever made?

Mr. COYNE: I discussed this informally with someone in Ottawa and got the impression that this was not feasible.

Mr. THOMPSON: Would you care to say with whom you discussed it?

Mr. COYNE: Yes; the Inspector General of Banks.

Mr. THOMPSON: As far as you know there was no other approach made following the difference of opinion that occurred in the board meeting?

Mr. COYNE: On this particular point?

Mr. THOMPSON: On this particular point.

Mr. COYNE: As far as I know, yes.

Mr. THOMPSON: You mentioned, Mr. Coyne, in your own statement that the British International Finance group had failed to make good their subscription for shares to the extent of $1.5 million which they had previously agreed to do. Why did the B.I.F. group not meet this commitment?

Mr. COYNE: Perhaps I should give you a little history on that. This was one of several large subscriptions that were arranged nearly three years ago in anticipation of providing capital for the bank when it was chartered.

This particular subscription was in the name of Canadian Finance and Investments Limited a company which raised $3 million in capital from the general public in 1964, with a view to subscribing for $2.25 million worth of stock in the Bank of Western Canada, and also with a view to investing in other financial institutions. If there had been no Bank of Western Canada develop at all, all the funds would have been retained by Canadian Finance and Investments Limited and used in other types of investments. There was no question here of trust funds being held for possible return to the shareholders.

In addition to the $3 million raised from the public, British International Finance subscribed for, or wrote a letter committing themselves to pay for, $700,000 worth of stock in Canadian Finance and Investments Limited. This was related a little more closely, in timing at least, to the payment for stock of the Bank of Western Canada and, therefore, only became a matter of urgent importance after the charter of the bank was granted.

Since last July, the fact that Canadian Finance and Investments would have to make this money available to the bank, and that British International Finance would have to make it available to the extent of $700,000 to Canadian Finance and Investments, has been one of the matters exercising the mangagement of British International Finance.

When the time came that the directors of the bank specified the date upon which share subscriptions were to be paid for—which was at the meeting of December 16, and the date set was January 3—on that date, or the next day, all the subscriptions of any consequence were fully paid for with the exception of this one where the total amount paid in was $800,000 leaving an amount of $1,450,000 still to come. That has not yet been paid.

The matter was to be discussed at the board meeting on January 20, but was put off, at the request of the Chairman, to the end of the agenda, and finally the meeting came to a close without a suitable opportunity for further discussion of that matter.

I do not regard the position on any one day as being significant in this regard, but it is now some further period of time since that meeting and

certainly at the next meeting of the board of the bank it is something that will have to receive very careful consideration on the basis of legal advice on what should be done about it.

Mr. THOMPSON: You mention in your statement that the B.I.F. group have been currently engaged in a borrowing operation with American banks, and that, as you previously stated today, some of this may have been to assist the B.I.F. organization in meeting their commitment to the Western Bank, or that some of it may have been intended for other purposes. Do you understand, then, from that that the B.I.F. group is short of cash?

Mr. COYNE: I do not suppose I need to draw a conclusion from it, Mr. Thompson. The facts are as I have stated them.

Mr. THOMPSON: In other words, there is a financial difficulty in meeting this commitment?

Mr. COYNE: There are financial requirements that they have to meet, and they have been endeavouring to meet them.

Mr. THOMPSON: Do you know, Mr. Coyne, if the British International Finance group have been under investigation by the Ontario Securities Commission or by the Insurance Branch?

Mr. COYNE: I am a little bothered by your language, Mr. Thompson. It was stated in the newspapers this afternoon, apparently from Ontario government sources, that the Department of Insurance had been having discussions with several trust companies in Ontario. I do not know anything about the Securities Commission.

Mr. THOMPSON: Would you say that these discussions, then, have been held with with some of the trust companies belonging to the British International Finance group?

Mr. COYNE: This is what was indicated in the newspaper this afternoon. I am not sure if this is strictly germane to what I am dealing with here.

The CHAIRMAN: Mr. Thompson, since we have Mr. Stevens as our next witness, if this could be considered relevant to our inquiry at this time he would be a more appropriate person to ask.

Mr. THOMPSON: Probably that is so. I think I will ask these questions of Mr Stevens as well but Mr. Coyne, up until a week or so ago, has been a member of the board of the B.I.F. group, too, and I thought he might have some information about this that would be of assistance to us.

Mr. Coyne, following up a remark you made a few moments ago, would you identify the trust company in Alberta which two of your directors are part of and in which the British International Finance group holds 30 per cent of shares and an option on further shares?

Mr. COYNE: Yes; I should say that this is a matter of public record already; there is nothing new or remarkable about it. It is the Alberta Fidelity Trust Company of Edmonton, Calgary and Camrose, Alberta, for the management of which I have every respect.

Mr. THOMPSON: Would you identify the Winnipeg trust company of which two of your directors of the Bank of Western Canada are part?

Mr. COYNE: This is the Fort Garry Trust Company, a Manitoba company, whose shares are in the process of being exchanged by the shareholders for shares of York Trust in Toronto; so that York Trust is, in effect, and shortly, I guess, will be legally the sole shareholder of Fort Garry Trust.

Mr. THOMPSON: You have made a good deal of the rift between the west and the east on the matter of British International Finance Corporation not really serving the original intentions of the Bank of Western Canada to serve the west. Do you see a conflict of interest here, at all, as far as the western members of your board are concerned?

Mr. COYNE: Every man must answer for himself. I certainly felt that I was in an ambiguous and difficult position when issues arose which seemed to suggest a conflict between what the B.I.F companies wanted to do and what I thought the bank should be doing. It is not just west versus east; that is almost a co-incidence. This bank was set up to be a bank of western Canada and public statements were made that it would carry on its operations in western Canada and lend its funds in western Canada, and so on. So that is the western factor.

This is challenged, or upset, if a financial institution, whether in western Canada or eastern Canada, threatens to use its voting power, through holding of stock, to secure that certain transactions are done and arrangements entered into to benefit it, without necessarily being within the ambit of the kind of operation the Bank of Western Canada was supposed to carry out. And which they could not do, I may say. They could not wield this influence, or attempt to wield this influence, if it were provided in the act, once more, that no one could hold more than 10 per cent of the stock.

Mr. THOMPSON: Could you interpret the resignation of Mr. Stevens as President of the York Trust and the York Lambton organizations as an attempt to smooth over those differences that you have been referring to?

Mr. COYNE: I do not think that that was related to the Bank of Western Canada situation in any way.

Mr. THOMPSON: You mention that you have engaged staff who are presently occupied in setting up the organization for the opening of your doors for business. How soon do your plans call for the opening of your first bank?

Mr. COYNE: Whatever ideas we had a little while ago have been somewhat delayed by recent developments. We have not yet completed negotiations for premises for our first branch in Winnipeg. We know where we want to go, and we are negotiating, but there are certain problems, including legal problems from the landlord's point of view, which have delayed things so that we probably could not, in any event, be ready to open our branch, properly fixed up and with the changes and improvements we would have to make in the premises, before May 1.

Mr. THOMPSON: But you had intended to open your first branch in the city of Winnipeg.

Mr. COYNE: Yes, in the city of Winnipeg; where the head office is.

Mr. THOMPSON: In your October meeting of the board of directors of the bank you made a very clear statement about your own views and the intention of the bank serving western Canada, and that it was basically a western bank.

Even that time you stated that it was not to be controlled by any group in the east.

Mr. COYNE: I said that I thought it was very important that it should not have its affairs entangled in any way with the affairs of the British International Finance companies, and that it was equally important that the public should believe this and should not think that this bank was in some way mixed up with, and dominated by, these other financial institutions because we would not get the kind of reception we would like to get amongst potential customers if they did not think it was a genuine bank of western Canada.

People had not been lacking as you know, to say, both in parliament and out of parliament that the bank was indeed just a front for some other type of operation which was contemplated.

I began to realize more and more, as the months went by in the autumn, how strong this atmosphere of skepticism could be, and was growing to be, in western Canada.

Mr. THOMPSON: Can I assume, then, from your statement that you had fears that this was taking place as early as October?

Mr. COYNE: I had fears that we would have difficulty in convincing the public, and in telling truthfully to the public, that this bank was being run as a bank for certain purposes related to its functions as a bank in western Canada, and not being run in such a way as to serve the purposes of financial institutions...

Mr. THOMPSON: Were you aware even at that time—

Mr. COYNE: ...which were shareholders.

Mr. THOMPSON: Were you aware even at that time that the BIF group were actually using the Bank of Western Canada for the benefit of the BIF organization?

Mr. COYNE: On February 1 it was indicated to me that discussions in New York to this effect had been going on for some time; I do not know how long. I did not realize that this was being done; that attempts were being made to interest various American banks, which finally succeeded in the case of one, or one group of American banks. Various suggestions were in the air that, somehow, if only the bank could assist the group in their present difficulties, it was only right and fair that this should be done.

This matter of the purchase of the finance paper portfolio was mentioned to me before the meeting of December 16.

Mr. THOMPSON: Just one more question in this regard: I think it was in this October statement that you mentioned that you felt that the western directors had no real interest in furthering the BIF group to the Bank of Western Canada, and that their intention was basically to develop a bank the primary objective of which was to serve western Canada?

Mr. COYNE: I expressed that view on my own behalf.

Mr. THOMPSON: Yes. Did you not feel that the connection that four of your western directors had with trust companies that were part of the BIF group was indicative of the reach that it had even into western Canada through the directors of the bank at that time?

Mr. COYNE: I was not afraid of that because I had every confidence that the directors concerned would put the interests of the bank first. In addition to that, two of those directors were connected with a company which really runs itself with a reasonable degree of independence, which is not dominated by the BIF group; and the other two were directors of companies which were in the process of being merged, or wound-up, under a reorganization scheme which the BIF group were putting forward; and, therefore, their connection there was bound to terminate within a few months, in any event.

Mr. THOMPSON: I would just like to question you on one more aspect of your statement.

The CHAIRMAN: Perhaps you could pose your question and I will permit Mr. Coyne to answer. The 20-minute period of questioning has just expired, according to our clerk.

Mr. THOMPSON: May I just ask one more question?

The CHAIRMAN: Yes.

Mr. THOMPSON: You are very clear, Mr. Coyne, in your statement, that it is your opinion, regarding the bank legislation that we are now considering, that no American bank should be permitted to hold any shares in a Canadian bank.

Mr. COYNE: Voting shares.

Mr. THOMPSON: Then you believe that even paragraphs (a) and (b) of clause 53(1), which limit the amount of American ownership in any one Canadian bank to 25 per cent, or to 10 per cent as an individual, are too generous, do you?

Mr. COYNE: I may be unduly influenced by the experience I have just been through, but I do not think it is desirable. If an American bank wants to be an investor in some way—a pure investor and nothing else—that is one thing; but if its only interest is to try to get a connection with a Canadian bank of a kind which the directors of that bank would not normally enter into with it, and if that American bank has other connections of its own—for instance, this bank in New York, with the line of credit made available to the British International Finance, is, itself, a subsidiary of a finance company, I believe. There are all sorts of possibilities of a kind that could cause difficulty for the Canadian bank concerned.

Mr. THOMPSON: Could I ask—

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I wonder if Mr. Thompson would permit a supplementary question of Mr. Coyne?

Can Mr. Coyne identify the American bank through which this line of credit was arranged?

Mr. COYNE: Well, I am not very anxious to.

Mr. MACDONALD (*Rosedale*): If the Committee felt that it would be helpful would you then be anxious to?

Mr. COYNE: Perhaps Mr. Stevens could identify it for you.

The CHAIRMAN: I think I should reserve, for the time being, the question of the relevance of this particular bit of information.

Mr. THOMPSON: I have just one last question, Mr. Chairman.

Actually, Mr. Coyne, what you are recommending to this Committee is that, in your own opinion, in the case of the Mercantile Bank this 25 per cent requirement of the present legislation should be reduced to zero?

Mr. COYNE: I did not intend to make any recommendations with specific reference to the Mercantile Bank, and perhaps I have not phrased my recommendation too carefully, or too well. Surely the basic point, that I am making, and which runs through all of these questions, is: Let your Canadian banks be run by a board of directors whose only object is the welfare of the institution, as such, and its depositors and its general body of shareholders; and do not let any large shareholder have too much influence, either in electing the board or in how the affairs of the bank are carried on. Now, if an American bank obtained very much voting stock it would perhaps be in a position to exercise a lot of influence.

Mr. THOMPSON: I think, Mr. Coyne, even if nothing else comes out of your appearing here in the sessions today, that certainly your opinion in this regard is very timely.

The CHAIRMAN: Thank you, Mr. Thompson. I recognize Mr. Lambert, followed by Mr. Cameron.

Mr. LAMBERT: Mr. Coyne, I have re-read the transcript of the proceedings of this Committee dealing with the incorporation of the Bank of Western Canada. You will recall that at the time we were discussing with you, Mr. Stevens and others seeking the incorporation of this bank the nature of the holdings, or the extent of the holdings of the BIF group, it was disclosed by Mr. Stevens and yourself that this would ultimately come to 51 per cent. This was clearly indicated.

Mr. COYNE: Yes; subject to the provision that it was to be reduced over a period of time to 10 per cent.

Mr. LAMBERT: Granted; and at that time the Bank Act did not require it.

Mr. COYNE: No; but special provisions were put in our charter.

Mr. LAMBERT: I will come to that. You will recall that as a result of questioning by, I think, the member of York South and Mr. Coates, myself and others, about the possibility of the control of the Bank of Western Canada being alienated, the sponsors agreed to incorporate what is known as "the group of 50's" to clauses of Bill No. C-102 which at that time provided for no holdings in excess of 25 per cent. On the motion of Mr. Lewis, the member for York South, this was reduced to 10 per cent.

Mr. COYNE: Yes, this was adopting, in our charter, when it came before this Committee, clauses which the Minister of Finance had already given notice in the House of Commons would be proposed to be included in the new bank act which was not yet in operation.

Mr. LAMBERT: Not quite; they were in the first proposal.

Mr. COYNE: Yes.

Mr. LAMBERT: They were in the first proposed Bill No. C-102; and there have been changes in Bill No. C-222.

Mr. COYNE: Yes; but I think the Inspector General of Banks told this Committee at that time that it was contended that in the next version of the new bank act these clauses would also be present. In other words, our bank was going to put in, immediately, clauses which were going to be in effect later for all banks.

Mr. LAMBERT: Yes; this is so. He expected that this would be done.

Mr. COYNE: I am not trying to deprive you of credit for these clauses.

Mr. LAMBERT: No, no; there is no question about that. My point is, however, that I find, shall I say, a rather curious paradox between your statemnt of February 3 and what you obviously knew and accepted at the time of the incorporation. As an amendment to the incorporating act there was deliberately provided for first of all, 25 per cent; then at the request of the Committee there was a reduction to 10 per cent, and this within the powers of the bank. Under Bill No. C-222 it is even more extensive, because it is 10 per cent for one holding, and a maximum of 25 per cent in non-resident holdings. Yet in your statement you feel that there is something wrong in negotiations, or feelers—I do not know the extent of them—that a 10 per cent interest in the Bank of Western Canada would be sold to a non-resident.

My point is, frankly, that this was not illegal under the charter, and, as a matter of fact, would be even less illegal under the proposed act.

Mr. COYNE: I do not think it could be less illegal.

Mr. LAMBERT: Well, in so far as it concerns non-residents. I perhaps used the wrong description.

Mr. COYNE: If you are saying that I hold somewhat different views now from what I held a year ago, you are quite correct.

Mr. LAMBERT: I wanted to establish that.

Mr. COYNE: At the same time, it was discussed in this Committee whether this group would be likely to sell out their stock to non-residents, and I am pretty sure the answer given was that there was no such intention.

Mr. LAMBERT: On re-reading the evidence, I have not been able to come across it in quite those terms; it is possible that it is there. However, I was seeking to bring out this change of opinion.

That is all, Mr. Chairman.

The CHAIRMAN: Have you completed your questioning?

Mr. LAMBERT: Yes.

The CHAIRMAN: Mr. Cameron?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Coyne, I presume that before the Treasury Board passed its minute of August 3 last year you and your associates had a meeting with the Minister of Finance.

Mr. COYNE: With the Inspector General of Banks; not with the Minister of Finance.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): With the Inspector General of Banks.

Mr. COYNE: Yes, as I recall. I know we had a meeting with him, but I do not think we had a meeting with the Minister of Finance.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): What I am interested in finding out are the means by which the Minister of Finance—because it must have been he—was persuaded that it would be acceptable to make the special provision for the divesting period, which you now feel should be rescinded. What was the argument that was put forward on the situation as you explained it to him at that time?

Mr. COYNE: Mr. Stevens and I saw the Inspector General of Banks, and I certainly supported this proposal—and participated in it—that we had said all along that we felt that it was necessary to have a strong group sponsoring the bank, and that arrangements had been made, indeed, for them to put up $6\frac{1}{2}$ million in capital. We accepted the idea that ultimately this had to be reduced to not more than 10 per cent of the bank, but obviously this could not be brought about over night. It needed a period of time in which the bank could get established and plans could be made by which the group's holding would either be reduced in absolute terms, or in proportionate terms, to the 10 per cent figure. The order that was made reflects that viewpoint which, I presume, was acceptable to the people who made the order.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, Mr. Coyne, I would like you to cast your mind back, if you would, rather more than two years—I am not quite sure of the date—to when you came to see me in my office.

Mr. COYNE: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): At that time, as you may recall, I and some of my colleagues were holding up the passage of the Bank of Western Canada bill in the House.

Mr. COYNE: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As you may remember, I raised with you at the time that it appeared to me that although the claim was being made that this was going to be a Bank of Western Canada, it was impossible to avoid taking note of the fact that the principals, including yourself, at that time were all located in the city of Toronto. As I recall it at that time, in order to re-assure me on this point, you told me that you had approximately $12 million—I would not say subscribed—in prospect of being subscribed in western Canada.

Mr. COYNE: No, not that amount in western Canada; somewhere over half was subscribed in western Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As I say, my memory may be faulty but I seem to—

Mr. COYNE: I think we made that very clear in the first appearance before the Senate in February or March of 1964, which was before we saw you. It was all in the public record as to what these subscriptions were.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I may have misunderstood you at that time but I certainly have a rather clear recollection of the figure of $12 million being—

Mr. COYNE: The total capital was $12 million to $13 million, and something over half of that was subscribed by residents of western Canada.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, I see by the Treasury Board minute that—

Mr. COYNE: Part of the subscription by residents of western Canada was for shares in British International Finance companies, so it went indirectly to the bank. About half of the capital was subscribed directly by residents of western Canada through a trust fund which was set up in Winnipeg and administered by the Canada Permanent Trust Company.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Part of what sum?

Mr. COYNE: Of the $13 million. About $6,400,000, I think it was, was subscribed in that particular way.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Through the BIF.

Mr. COYNE: No, through a trust fund, which was to be turned over to the bank in return for shares in the bank. Those subscriptions, except for certain institutional ones like the western life insurance companies, were limited to 200 shares per person. That was in an effort to get wide distribution in western Canada and, in fact, I think 5,500 individual subscriptions were received.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Did I understand you correctly when you said just now that there was another proportion of it that was subscribed in western Canada to companies in the BIF group?

Mr. COYNE: Yes, more particularly to the capital stock of Canadian Finance and Investments Limited, which I mentioned earlier.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Which is one of the members of that group.

Mr. COYNE: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could you tell us, Mr. Coyne, what the situation now is with regard to direct subscriptions from western Canada for stock in the Bank of Western Canada?

Mr. COYNE: In the interval the trustee certificates, which were originally issued before the bank existed, were capable of being bought and sold and transfers registered, except that no transfer of those certificates could be made in the name of a non-resident. That went on, and I understand—although I have no direct information—that to some extent the western interest declined and the eastern interest increased; that is to say, people in other parts of the country bought some of these certificates from the holders in western Canada by a free transaction in the stock market.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So you are not able now to tell us what, in effect, is the western investment?

Mr. COYNE: By way of investment, no, I cannot tell you what the figure is. However, I could find out at some stage.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): With regard to the suggestion, Mr. Coyne, in your statement, which appears at the second page of

those papers which we have been given, you say this:

> I wish to recommend to Parliament that, before the new Bank Act is finally passed, the prohibition upon voting stock, in excess of 10 per cent of the total, be put back into force for new Banks, just as it is for the older banks. In other words, the authority given to the Treasury Board or to the Governor in Council to grant exemption to majority shareholders in new banks should be reversed.

Then you mention the American bank. Now, what effect do you think this will have on your success in financing the Bank of Western Canada if the Committee and parliament accepts your suggestion?

Mr. COYNE: I think it would serve to reassure the community where we hope to operate that the affairs of the bank were being administered by directors who were elected by the general shareholders and they were not subject to removal at the instance of some one group holding 51 per cent of the shares.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You merely suggest that they should be deprived of their voting power, is that it, or are you suggesting they should immediately divest themselves of ownership to the extent of 10 per cent?

Mr. COYNE: Well, that could not be done immediately. I have indeed suggested to them—and the suggestion has come up in discussion—that they would be willing to sell some of their stock to westerners if there are westerners who would like to buy it. But my suggestion here for public discussion is that the voting privilege be removed.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you, that is all I have for now.

The CHAIRMAN: Mr. Fulton?

Mr. FULTON: If I have understood correctly, there is a conflict in Mr. Coyne's testimony between what he told me and what he told Mr. Thompson and Mr. Cameron just now. I would like to get it cleared up, if I may ask a supplementary question. I thought you had told me, Mr. Coyne, that there was no authority given at any meeting of the board of the Bank of Western Canada to discuss with the Minister of Finance or officials in Ottawa the proposal which you told us Mr. Stevens had been pressing on you. There had been no authority given to discuss this and a rather vague minute was then made about the whole matter.

Mr. COYNE: Yes.

Mr. FULTON: I am correct in that understanding?

Mr. COYNE: Yes.

Mr. FULTON: Then it seemed to me you told Mr. Thompson and also Mr. Cameron, if I heard you correctly, that some time in February both you and Mr. Stevens were in Ottawa discussing with Mr. Elderkin, the Inspector General of Banks, a relaxation of the Treasury Board restriction.

Mr. COYNE: No. What I said was that it was last July, I think, we were in Ottawa discussing with the Inspector General of Banks what Treasury Board restriction would be put in and that is the one which allows 10 years for this

reduction in holdings from over 50 per cent down to 10 per cent. That was what we discussed with him.

Mr. FULTON: There was no discussion either before or after December of 1966 and January and February of 1967 by you with any official in Ottawa of the relaxation of these provisions which prevented the banks from having financial transactions with the BIF through the company?

Mr. COYNE: Other than the one I read about in the newspaper today in which Mr. Sharp mentioned—perhaps before your Committee—a talk he had with Mr. Stevens yesterday, I believe.

Mr. FULTON: There was no discussion by you?

Mr. COYNE: No.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a supplementary question, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would like to refer you, Mr. Coyne, to section (f) on the second page of the Treasury Board minute where there are five provisions outlined of actions which the bank must not take except with the prior approval of the Minister of Finance. I gather from what you have said this afternoon, Mr. Coyne, that you very strongly disapprove of the bank taking any of these actions. I gather that these are part of your dispute with your associates. I am wondering why this was included, which would give the Minister of Finance authority to do these things which you have stated you would not approve of, and I gather you felt it was fairly clearly understood at the time that it should not be done.

Mr. COYNE: I feel it was understood when we were before parliament that this would not be done. The actual terms of the Treasury Board order were not discussed with me. I had no knowledge of this particular clause until I read it in the Treasury Board order.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have no idea at all why the Minister of Finance would put that in?

Mr. COYNE: Other than the obvious one, to reinforce the assurances that were given to parliament by this group.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It would be reinforced still more if the clause "except with the prior approval of the Minister of Finance" had been left out, and you think it should have been left out.

Mr. COYNE: I think so now. I did not complain about it at the time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, that interests me. Why did you not complain about this at the time? Did you not disapprove of it at that time?

Mr. COYNE: Do you mean last August?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, did you not disapprove of these possible actions at that time?

Mr. COYNE: It did not actually occur to me that the case would ever arise at that time. It seemed to me that Treasury Board were merely legislating some-

thing which was already clearly understood. Referring to the clause "except with the prior approval of the Minister of Finance", I do not know why that was put in there. Perhaps it was just so that it would not be absolutely rigid in case something came up that had to be done, I do not know. However, I did not really consider the matter at that time at all.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Mr. Coyne, referring to your change of mind with respect to the regime set up by Treasury Board minute No. 658534, do I understand your position to be that your change of mind with regard to that regime occurred as a result of what you referred to as your ambiguous and difficult position vis-à-vis the BIF company.

Mr. COYNE: Change of mind with regard to what provision of that order?

Mr. MACDONALD (*Rosedale*): Specifically with regard to the provisions that the—

Mr. COYNE: That permit voting to take place?

Mr. MACDONALD (*Rosedale*): —shares need not be divested immediately, but may be held for a period of—

Mr. COYNE: The main point that I would say I changed my mind on is the provision that they would be allowed to be voting stock.

Mr. MACDONALD (*Rosedale*): I see.

Mr. COYNE: Whereas, but for this Treasury Board order, it would not have been voting stock. But that was contemplated in the statute; one cannot complain that anything was done that was not contemplated as a possiblity in the statutes.

Mr. MACDONALD (*Rosedale*): Referring to your press release of February 3, and I am referring to the paragraph at the top of the second page, do I understand that when you refer to a want of confidence in the management and policies of those companies you are referring specifically to the proposals that related to the Bank of Western Canada?

Mr. COYNE: No.

Mr. MACDONALD (*Rosedale*): You are not referring specifically to that but to a broader one?

Mr. COYNE: Yes.

Mr. MACDONALD (*Rosedale*): As a matter of interest, Mr. Coyne, under what jurisdiction was British International Finance, Wellington Financial, and York Trust incorporated?

Mr. COYNE: I am not absolutely certain but I think British International Finance is an Ontario company. I know that Wellington Financial is a federal company and York Trust is an Ontario company.

Mr. MACDONALD (*Rosedale*): Reverting to my earlier question, I refer specifically to the final sentence of your press release, which reads:

> No American bank shall be entitled to hold any shares in a Canadian bank.

Could you tell us specifically the names of the American banks with whom the BIF group of companies were negotiating?

Mr. COYNE: I think this question came up a little earlier. I would prefer not to name names, particularly as the man who can tell you those names is going to appear here himself.

Mr. MACDONALD (*Rosedale*): That is fine, I will reserve the question. Now, to develop Mr. Cameron's line of questioning—and correct me if I mis-state your evidence of last year—as I understood your reasoning at the time you felt that a strong group was necessary in the initial years of a bank in order to get it off the ground.

Mr. COYNE: Yes, and that it was necessary to have a group already there in order to prevent anybody else from coming in and assuming control. What I did not give enough value to was the fact that in the new Bank Act the ban on anybody holding more than 10 per cent would really prevent a new group from coming in and getting control, and that I should have realized, but did not, destroyed a good part of the argument in favour of allowing any group to start off in control.

Mr. MACDONALD (*Rosedale*): Do you feel that the fact that there will not be a strong group in control, that is to say, that there will not be voting control if your suggestions are adopted, will that prejudice the future of the Bank of Western Canada?

Mr. COYNE: No. I have now seen, (a) that a group of independent directors are capable of overseeing the affairs of the bank from the start and, (b), that a group of professional bankers can be brought together who will take on the job of organizing the bank. I have great confidence in the still rather small group of men who have been brought together and are engaged in this planning operation right now.

Mr. MACDONALD (*Rosedale*): In other words, you are confident that management, as opposed to ownership, can get this off the ground.

Mr. COYNE: I am confident that management, as opposed to ownership, supervised by an independent board of directors is the right thing, and I am confident that the British International Finance group have nothing to offer by way of advice or assistance that will help the bank and that they have attempted to do things which would be harmful to the bank and that the bank is suffering from the fact that in the public mind it is so intimately associated with the British International financial group.

Mr. MACDONALD (*Rosedale*): You say in the third paragraph on the second page of your press release:

> ...they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the Committees of the Senate and of the House of Commons...

Would you by any chance be able to give us chapter and verse the explicit statements made to this committee last year?

Mr. COYNE: I have a recollection of them, yes.

Mr. MACDONALD (*Rosedale*): I wonder if you could undertake to make those available to the committee so that we will know specifically what you had in mind when you made that statement.

Mr. COYNE: Yes.

Mr. MACDONALD (*Rosedale*): Similarly, in the final line of that same paragraph you say:

> . . . again contrary to statements made when applying for a charter.

I wonder if you could give us the same undertaking with regard to those statements.

Mr. COYNE: I am sorry, I have not been looking through the hearings specifically for that point, I was looking for the other point as the major one. However, I know there was a general atmosphere of questioning in this committee, and in the Senate Committee two years earlier, on this point. My recollection is that we did our best to assure people that this group was not going to sell out to Americans. Somebody suggested, "Is this just a front for something and we will wind up seeing some American interests owning the bank?", and we said, "Definitely not".

Mr. MACDONALD (*Rosedale*): Thank you, Mr. Coyne.

The CHAIRMAN: I now recognize Mr. Monteith. I might say for the interest of those concerned who have not had a chance to review our minutes on the initial hearings in support of Bill No. C-111, an Act to incorporate Bank of Western Canada, that they are proceedings numbers 1, 2 and 3. The dates of the hearings are Thursday, February 17, Tuesday, March 1, Thursday, March 3, and Tuesday, March 8, 1966, and they run from page 1 to page 176 of our proceedings. It would be easy for those interested to check what was said at that time by referring to these minutes.

I will now recognize Mr. Monteith, and following him on the list I have Mr. Munro, Mr. Wahn and Mr. Coates.

Mr. MONTEITH: Mr. Chairman, I have a very short question which I would like to ask. On page 99 of the proceedings you just mentioned I asked this question of Mr. Stevens:

> I take it that 2,000 people have subscribed $3,750,000 to Wellington for stock totalling 250,000 shares?

Mr. STEVENS: That is correct.

Mr. MONTEITH: I understand the Canadian Finance have taken a block of 150,000 shares, totalling $2,250,000.

Now Mr. Coyne, of this latter amount $1,500,000 has not been subscribed?

Mr. COYNE: To be exact, $1,450,000 has not been completed.

Mr. MONTEITH: I assumed from this question and answer that these funds had definitely been allocated. Was I right in doing that?

Mr. COYNE: No, sir. I think we made it quite clear that Canadian Finance and Investments Limited had certain funds and was to receive a further $700,000 in due course; that it was in the business of investing in financial institutions; that it had agreed to take up $2,250,000 worth of stock in the Bank of Western Canada but it did not put those funds in trust for that purpose, as was done in certain other cases. In the two other cases where that was done the condition of the trust was that the money would be paid back if the charter did not ever come through.

Mr. MONTEITH: That would be that money in Canada Permanent and Wellington?

Mr. COYNE: Yes, but in the case of Canadian Finance and Investments' money, if there were no bank charter the money remained as capital of Canadian Finance and Investments Limited and would be used by them in their operations and for investments, as was spelled out in the prospectus issued at the time.

Mr. MONTEITH: So that one could not say that there were funds in Canadian Finance that had been definitely allocated and used elsewhere?

Mr. COYNE: No.

Mr. MONTEITH: Thank you.

The CHAIRMAN: I now recognize Mr. Munro.

Mr. MUNRO: Mr. Chairman, as I understand in the statement given by Mr. Coyne today, he has given three reasons for his resignation. The first reason is that they, referring to the BIF group in particular:

> failed to make good their subscription for shares to the extent of about $1,500,000.

The second reason is that:

> They have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements.

The third reason is that:

> They are presently engaged in a borrowing operation with American banks

—and so on, and are selling shares amounting to some 10 per cent. Would you have taken the action which you have presently taken, Mr. Coyne, for any one of those three reasons.

Mr. COYNE: I do not know. Those were not the only reasons for my resignation. Those are the three points having special reference to the Bank of Western Canada which I itemized in my statement in addition to the fact that their image is doing a disservice to the Bank of Western Canada. These matters came up with a bit of a rush in the last four, five or six weeks and I had been worrying about them and about what I could do and about what the effect of my resignation from the British International Finance companies would be. I had, indeed, resigned from most of the companies in that group in the middle of January but I reserved for further consideration what I would do with respect to three companies. It was just a question of timing in my mind more than anything else. However, I was simultaneously very concerned about how we were

going to rescue—as I would put it—the Bank of Western Canada and its image and put it in shape to operate on the basis that we had promised people it would operate.

Mr. MUNRO: As I understand it, Mr. Coyne, you indicate in the statement that you are resigning from the boards of directors because you no longer have confidence in the management or policies of those companies.

Mr. COYNE: Yes.

Mr. MUNRO: And I take it what led you to this point where you no longer have such confidence is for these three reasons?

Mr. COYNE: I think when I was questioned earlier I said that I had other reasons.

Mr. MUNRO: I take it these would be the three principal—

Mr. COYNE: These are the reasons which relate to the Bank of Western Canada.

Mr. MUNRO: I see. Do you regard the failure to make good the subscription for shares to the extent of $1,500,000 to be a definite breach of undertaking at this stage, or do you feel that it is reasonable to assume that they should have more time to make up this deficiency?

Mr. COYNE: When you take it in conjunction with the fact that they are saying they have the voting power to control the bank and that other people must give way to them for that reason, and their voting power depends in part upon stock which they have not paid for, then I think it becomes very relevant to the stand which I have been taking.

Mr. MUNRO: I think you did state, with reference to your second reason concerning the Bank of Western Canada that you are satisfied by the attempts of this group to get the bank to provide credit, despite the fact that no formal act had taken place by the BIF group, that there was no doubt but that they were going to continue to pressure you and the bank to—

Mr. COYNE: What form the next particular approach might take I could not say, but my judgment of the indications was that we would constantly be under this kind of pressure and we would constantly be told, as we had been told in board meetings and elsewhere, that they are the people who are entitled to have the major say on how the bank shall operate, and that it should operate in such way as to have connections with the people they want the bank to have connections with because they also have connections with those people.

Mr. FULTON: May I ask a supplementary question?

The CHAIRMAN: If Mr. Munro will yield.

Mr. FULTON: Has anything been called up on these shares?

Mr. COYNE: I would have to refer to lawyers on this, Mr. Fulton. It was not quite the same as a normal company subscription where money is not due until called. This was a special form of undertaking given by those concerned that full payment would be made on a date to be specified by the board of directors. That date was specified by the board of directors and notification was given and payment was not made.

Mr. FULTON: How can they vote the shares, then?

Mr. COYNE: That is something the lawyers will have to look into. I do not know the situation there.

Mr. FULTON: I will not go into the supplementary, but I have in mind whether you are quite right when you say they are in a position to exercise control under the circumstances which you now describe.

Mr. COYNE: Perhaps I should say that they think they are in a position to exercise control, and say so from time to time.

Mr. FULTON: It is a clash of personalities.

Mr. MUNRO: With reference to your third reason, Mr. Coyne, that they are presently engaged in a borrowing operation which involves giving an option on 10 per cent of the total shares, in terms of specific action taken by this group what would that action constitute?

Mr. COYNE: The boards of directors of Wellington Financial Corporation and British International Finance passed resolutions—against, of course, my dissenting vote—on Wednesday, February 1, favouring in principle a financial operation which involved securing a line of credit to a subsidiary of these companies in New York which would be guaranteed by both of these companies, and I think it was suggested that their obtaining of the money from the subsidiary in New York would be supported by a pledge of Bank of Western Canada stock. In addition to that, the real lender in New York had been told he had an option on stock which he would buy in British International Finance or Bank of Western Canada up to 10 per cent of the total of the stock in the Bank of Western Canada. Now, "option" was the word that was used in all those discussions. It did not specify what the price would be and I do not know whether it would be legally enforceable.

Mr. MUNRO: What is the principal source of your objection to this type of undertaking? Is it because you feel that it was a breach of commitment to parliament or parliamentary committees or is it because of the interrelationship that seemed to be evolving with these American interests through lending arrangements and staff, and so on, that there were more implications than you had ever anticipated in terms of foreign capital coming in?

Mr. COYNE: That is right, yes.

Mr. MUNRO: Did both factors contribute to your taking serious objection to this action? Which is paramount in your mind, this breach of commitment to the committee or this sort of experience you have had over the last two or three weeks?

Mr. COYNE: I cannot specify the order of importance of all these factors. I think when you take them altogether they are pretty devastating.

Mr. MUNRO: Would your objection be so serious if it had not come to your knowledge that there were these interrelationships and implications? Would you then have taken any exception to, say, 10 per cent of the stock being sold to Americans?

Mr. COYNE: I do not know now. Knowing now what I do know, I would take objection to anything of that sort, but I think your question is too hypothetical for me.

Mr. WAHN: Mr. Coyne, I would just like to clear my own mind with regard to those portions of your statement with which this Committee should be primarily concerned. Looking at your statement of February 3, you say in the third paragraph that the BIF group:

> ...have failed to make good their subscription for shares to the extent of about $1,500,000,...

Am I correct in assuming that this is not a matter for our consideration, really; this is a problem for you in the Bank of Western Canada and it has no relevance to anything that we are considering?

Mr. COYNE: Well, of course, that is for you to say rather than me.

Mr. WAHN: Let me put it this way. How do you see that that is relevant to our considerations? I can see that the Bank of Western Canada would be very concerned if a large subscriber failed to pay up in accordance with his subscription, but I find it difficult to see how this Committee is concerned.

Mr. COYNE: Well, sir, I have not said that this Committee has to be concerned in the matter at all. That is a matter for other people to decide.

Mr. WAHN: You cannot give me any reason why you think this Committee should be concerned about this particular part of your statement?

Mr. COYNE: I can only say that part of the presentation made to parliament was that these total funds would be forthcoming to finance the bank in its initial capital.

Mr. WAHN: From that point of view you feel that the representation made to the Committee has not been fulfilled. I can see from that point of view that we might be concerned. Did they, in fact, undertake to subscribe a specified amount?

Mr. COYNE: Yes.

Mr. WAHN: Which they have not done.

Mr. COYNE: That is right.

Mr. WAHN: You also state in the third paragraph:

> ...they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the Committees of the Senate and of the House of Commons,...

Could you give us your recollection of those explicit statements? What did they undertake—

Mr. COYNE: I can give you my recollection of it. I also have the record here of extracts from the hearings of the Committee on that particular point.

Mr. WAHN: Perhaps it would be useful to get those for our own reference, Mr. Chairman.

The CHAIRMAN: Yes. Mr. Coyne has just handed me a document entitled "Bank of Western Canada, Extracts from Senate and Commons Committees' Hearings" and this seems to deal with your question. I wonder what would be most convenient to you, Mr. Wahn, with respect to your line of questioning? Should I invite Mr. Coyne to read this and have it copied over the supper adjournment, or—

Mr. WAHN: I think it might be helpful, Mr. Chairman.

Mr. LAMBERT: This is on page 171 of our minutes.

The CHAIRMAN: There are also some references to the Senate hearings which we may not have before us.

An hon. MEMBER: I move they be read now.

The CHAIRMAN: Yes.

Mr. COYNE: These are only the extracts I happen to have made personally.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, on this point I think what we should hear is what Mr. Coyne thinks is important about what was said in this committee and not so much about what may be in the general record.

Mr. COYNE: Well, that is what I have extracted from the record.

The CHAIRMAN: Having heard the views of the Committee, I think I should suggest to Mr. Wahn that he invite Mr. Coyne to read these extracts which he has compiled on this particular point that was raised.

Mr. MONTEITH: You suggested, Mr. Chairman, that you might have copies made during the dinner hour.

The CHAIRMAN: I will ask the Clerk to attempt to do so if the Xerox machine is open. Will you proceed now, Mr. Coyne.

Mr. COYNE: The first reference I have is the Senate Banking and Commerce Committee Proceedings No. 1 of March 18, 1964. On pages 37 and 38 Mr. Stevens said:

> It would not be our intention should we receive a charter to have other companies in our group borrow funds from the new bank. In fact, prior to announcing our intention to apply for a bank charter, we spoke to each of the existing banks with which we deal and gave and received assurances from them that in the event we received a charter, our group's existing banking arrangements would be maintained.

And further at page 40 of the same reference, Mr. Coyne said:

> At this point I should like to state as Mr. Stevens has done without qualification that we do not intend to use the funds of this bank to make loans to other institutions, such as York Trust, Wellington Financial, British International Finance, Canadian First Mortgage Corporation, or Simcoe Acceptance, with which some of the organizers of this bank are connected.
>
> These companies all have established banking connections which they expect to maintain, and in any case the size of loan that could be made available by the Bank of Western Canada would be of no interest to them. Similarly as regards the financial institutions in Western Canada with which we are connected—in their case, they will no doubt do some of their regular banking business with the bank, but will not look to it as a source of funds to be used in their own operations.

And then in this Committee of the House of Commons on February 17, 1966, Proceedings No. 1, on page 35 Mr. Horner asked:

> Do you intend to build up your banking business by deposits from the general public?

Mr. Coyne: Yes.

Mr. Horner (*Acadia*): And with connections with a few large companies such as trust companies or loan companies?

Mr. COYNE: No, we expect to depend entirely on the deposits of the general public. We will have some connections with trust companies, as do the other banks. In Western Canada all—

I should not have said "all", but that is the way it reads. I shall continue:

—all our people are already associated with two local trust companies, the one in Winnipeg, the Fort Garry Trust, and the one in Edmonton and Calgary, the Alberta Fidelity. I would expect those would be the trust companies with which we would have closest contacts, but we would not for instance contemplate lending money to them or have them lend money to the bank. It would be just a normal business relationship.

On March 3, 1966, Proceedings No. 2, Mr. Basford asked at page 90:

Is there not a danger that the money raised by way of deposit in the Bank of Western Canada could be used to assist the British International group in Ontario?

It reads rather strangely now:

Mr. Coyne: I do not know what you mean by danger. I can give you a categorical assurance that it will not. I was asked that question in the Senate and I said there was no such intention.

Then on March 8, 1966, Proceedings No. 3, Mr. Stevens said at page 171:

The other point I would like to mention, Mr. Horner, in connection with your suggestion that there be some interrelationship between our other trust companies and the Bank of Western Canada is this. I think, as was mentioned in evidence earlier, there certainly is no proposal or suggestion in our mind that the Bank of Western Canada, in fact, would, become the banker to the group. I can assure you this will not happen.

Mr. WAHN: Would you tell us, Mr. Coyne, what company of the group in fact did apply to the bank for credit?

Mr. COYNE: The proposal did not specify. I took it to relate primarily to the top company and any subsidiary to which it might wish to direct the funds.

Mr. WAHN: Was there any formal application made for a loan by any member of the BIF group?

Mr. COYNE: There was a proposal which the president of BIF put before the board meeting asking the board to approve the idea that a line of credit to his companies be established equal to 10 per cent of the capital and reserves of the bank.

Mr. WAHN: I just want to make sure that I understand this.

Mr. COYNE: There is a difference between establishing a line of credit and actually following it up by lending money.

Mr. WAHN: You were correct in thinking that the proposal was for a line of credit with the Bank of Western Canada equal to 10 per cent of the —

Mr. COYNE: —capital and reserves of the bank.

Mr. WAHN: Of the Bank of Western Canada?

Mr. COYNE: Yes. This would amount to roughly $1,300,000.

Mr. WAHN: In favour of the BIF group. That proposal was made at a directors' meeting of the BIF?

Mr. COYNE: No, of the bank. We are now talking about this specific proposal.

Mr. WAHN: Was this proposal put to the board of the bank or to you?

Mr. COYNE: The proposal was put to the board of the bank by the chairman of the board, who is president of British International Finance.

Mr. WAHN: You are referring to Mr. Stevens. When was this meeting of the board held?

Mr. COYNE: On December 16, 1966.

Mr. WAHN: What did the board do?

Mr. COYNE: I went over this at some length earlier, Mr. Wahn.

Mr. WAHN: Yes, I know. I am just trying to—

Mr. COYNE: The western directors in particular said they did not like the idea. Various suggestions were made that it was out of order because of a certain provision in the Bank Act and that we could not consider it while we only had $13 million of capital, although possibly some day, after we had a lot of deposits, a much smaller amount could be considered in some way.

Mr. WAHN: Was it turned down?

Mr. COYNE: There was so much opposition to it that it was withdrawn.

Mr. WAHN: Was it put to the board in writing?

Mr. COYNE: No.

Mr. WAHN: Was it a formal proposition or was it just a discussion or exploration of possibilities?

Mr. COYNE: It was not a formal motion. It was a matter, though, which the chairman said he wished to have dealt with and settled at that meeting.

Mr. WAHN: Would it be fair to say that Mr. Stevens was just exploring the views of the board with regard to such a loan?

Mr. COYNE: It would not be fair to suggest that he was not recommending it and asking for it. He was definitely recommending it and asking for it.

Mr. WAHN: Although there was no formal loan application?

Mr. COYNE: If it had met with the approval of the individual directors I suppose it would then have had to take the form of a formal resolution of some sort which, as you know, would be subject to approaching the Minister of Finance for his approval of it.

Mr. WAHN: This was at a meeting of the board of directors of the Bank of Western Canada?

Mr. COYNE: Yes.

Mr. WAHN: At which Mr. Stevens was acting as the chairman of the board of the Bank of Western Canada?

Mr. COYNE: Yes.

Mr. WAHN: Did any proposal come from the BIF group or any member of the BIF group as distinct from this proposal which originated with Mr. Stevens in his capacity as chairman of the bank?

Mr. COYNE: His proposal was supported by one or more directors who were there as representatives of the BIF group.

Mr. WAHN: There was no written proposal from any member of the BIF group as such?

Mr. COYNE: I do not think so.

Mr. WAHN: It was only raised, then, by members of the BIF group who also happened to be members of the board of the Bank of Western Canada, namely Mr. Stevens and his associates?

Mr. COYNE: By directors of BIF companies who are also directors of the Bank of Western Canada.

Mr. WAHN: Is there anything in the charter of the Bank of Western Canada which would prevent it from providing credit to these companies or any of them?

Mr. COYNE: Only the usual limitations on the size of a loan that can be made to any company with which a director is associated.

Mr. WAHN: Would that have been infringed by this particular—

Mr. COYNE: I do not know; I am not at all sure that it would. Of course, if the provisions of the Bank Act were to be fully carried out, once a proposal became a definite proposal the six BIF directors, and even myself, would have had to retire from the room while it was dealt with.

Mr. WAHN: In your view would the proposal for such a loan be contrary to anything in the Treasury Board minute?

Mr. COYNE: Not technically because it was made subject to going to the Minister of Finance to secure his approval.

Mr. WAHN: So that the proposal, although it may have been contrary to the statements made to the Committees that sat in the House of Commons, was not actually in violation of the charter as issued, nor was there anything in the Treasury Board minute which prevented it from being made?

Mr. COYNE: There is nothing in the Treasury Board minute that prevents you from applying for the Minister of Finance's approval of transactions which are illegal without his approval and which, if entered into without his approval, have the automatic effect of terminating the voting rights of the stock of the people concerned.

Mr. WAHN: Was there any discussion at this board meeting of the possibility of getting the approval of the Minister of Finance?

Mr. COYNE: Yes. Do you mean discussion about the likelihood of his granting it?

Mr. WAHN: Yes.

Mr. COYNE: Oh, I do not know about that. It was desired that the approval of the board be obtained first and have the authorization of the board to approach the Minister of Finance for his approval.

Mr. WAHN: I shall now refer to the next statement.

The CHAIRMAN: Mr. Wahn, as you are beginning a separate phase of your questioning and it is now six o'clock, perhaps it might be convenient to recess until eight, at which time you can complete your—

Mr. LIND: I have a supplementary question, Mr. Chairman, to that asked by Mr. Wahn.

The CHAIRMAN: I will accept it.

Mr. LIND: Are there any records of the board meeting of December 16 where this proposal for accommodation or line of credit was put forth?

Mr. COYNE: I do not believe there is a minute of the board meeting expressed in those terms. I think the final minutes, which we all felt was the best way to deal with it, recorded that the President of British International Finance had informed the board that he proposed, in his capacity as the President of the British International Finance, to approach the Minister of Finance for clarification of the terms of the Treasury Board order, and an indication of the circumstances under which he might give his approval to transactions of this character.

The CHAIRMAN: Thank you. I think it is convenient now to recess this meeting until eight o'clock.

EVENING SITTING

The CHAIRMAN: Well, gentlemen, I think we are in a position to resume our meeting. When we recessed for supper Mr. Wahn had the floor and I recognize him again.

Mr. WAHN: Mr. Coyne, when we recessed we were talking about the directors meeting of December 16 at which a proposal had been made for a loan to the BIF group of approximately $1,500,000. Did you have any reason to believe that loan was being requested for the purpose of paying up the subscription of the BIF group for the shares of the Bank of Western Canada?

Mr. COYNE: No, I do not think it was explicitly tied to that purpose.

Mr. WAHN: Did you think that was the purpose?

Mr. COYNE: It was not as definite as that. The idea was to have the board agree in principle that there should be a line of credit and then go to the Minister of Finance to see if he would approve it. What use would be made of the line of credit and to what purpose the funds would be put would be for later development.

Mr. WAHN: Did you know at that time that they might have some difficulty in coming up with the one million odd dollars they needed to meet their subscription price?

Mr. COYNE: I knew they had been making various efforts to find funds for that purpose as well as for other purposes.

Mr. WAHN: Did you say, Mr. Coyne, that this proposal was introduced again at a board meeting of the Bank of Western Canada held on January 20?

Mr. COYNE: It was mentioned.

Mr. WAHN: Was it mentioned formally or just in passing?

Mr. COYNE: It was mentioned by the chairman, and perhaps by others; I cannot recall exactly.

Mr. WAHN: What suggestion was made?

Mr. COYNE: The chairman made a remark to the effect that what had happened at the December 16 meeting had been merely a form of inquiry on his part and not a proposal.

Mr. WAHN: It was not a proposal; it was an exploratory effort?

Mr. COYNE: That is what he said then.

Mr. WAHN: If you thought the proposal made on December 16 was in direct violation of solemn and sacred pledges given by Mr. Stevens and yourself to Parliamentary Committee, why did you not resign, or make a public statement or warn the Committee on December 16 rather than on February 1?

Mr. COYNE: What Committee?

Mr. WAHN: Well, this Committee.

Mr. COYNE: I did speak to the board of the Bank of Western Canada about it, making that argument, but there were many problems that I had to deal with in various capacities. I did not feel on that occasion that I should resign immediately from these other boards.

Mr. WAHN: It would be fair to assume—on our part at any rate—that since the proposal or exploratory investigation had been rejected by the board of the Bank of Western Canada you felt, in your best judgment at that time, that the matter was not sufficiently important to issue a public statement warning the public, the government or this Committee. You look it up only with the board of the Bank of Western Canada.

Mr. COYNE: The fact is that I did not resign from these other companies until February 1.

Mr. WAHN: Yes. I think we are entitled to draw a fair conclusion that—

Mr. COYNE: No, I do not think you are. I think you are entitled to hear me when I say that there were a number of things which were disturbing me very much, including the way in which the BIF companies, of which I was a director, were being managed and the way in which they were seeking to influence the Bank of Western Canada, and I felt it my duty to stay there and try to achieve the best outcome in all of these situations rather than immediately resign at that time.

Mr. WAHN: I think that is an indication that you did not think what had been done was sufficiently important to justify an immediate resignation on your part, or the issuing of a public statement to warn the Canadian public and this Committee that there was something wrong with the affairs of this group of companies in their dealings with the Bank of Western Canada.

Mr. COYNE: I had to consider various conflicting possibilities and try to figure out the best think to do in the circumstances, including having further talks with the western directors of the bank.

Mr. WAHN: Do you have any reason to believe, when Mr. Stevens and you assured the Committee several years ago that there was no intent to finance the BIF companies through the Bank of Western Canada, that the statement made at that time was false?

Mr. COYNE: No, I have no reason to believe that.

Mr. WAHN: You must have believed the statement made was true at that time; otherwise you would not have gone along with Mr. Stevens.

Mr. COYNE: That is right.

Mr. WAHN: Now, two years later, the circumstances have changed and, perhaps, Mr. Stevens' ideas have changed as well. In other words, you are not suggesting that any false statements were made to this Committee at the time of application for its charter.

Mr. COYNE: No, I am not suggesting that.

Mr. WAHN: With respect to the third point in your statement, you say that the BIF group:

> —are presently engaged in a borrowing operation with American banks which involves the giving of an option on 10 per cent of the total shares of the Bank of Western Canada and various arrangements designed to tie the management and operations of the Bank to the operations of these Americans banks again contrary to statements made when applying for a charter.

Which one of those things are—or are they all—contrary to the statements which were made when applying for a charter?

Mr COYNE: There are chiefly two things perhaps. In the first place, although I cannot quote chapter and verse, my own recollection of proceedings before this Committee and the Senate Committee is that some people wondered whether there was any chance this group was either fronting for a group of American banks or somebody else, or might later sell out to a non-resident, and we endeavoured to assure the committees that was not so; we had no such intention and would not do it.

Mr. WAHN: Was there any suggestion at that time that under no circumstances should any shares of the bank be sold to non-residents? For example, under the present bill it is contemplated that up to 10 per cent of the stock can be held by non-residents.

Mr. COYNE: It is open to non-residents to buy shares on the open market, and there was no suggestion at that time that this should be prevented. However, in our presentation we laid a great deal of stress, particularly before the Senate Committee, on the fact that the original subscription certificates which were sold almost entirely in western Canada were not transferable to non-residents at all.

Mr. WAHN: I understood you to say that undertaking was carried out.

Mr. COYNE: Yes.

Mr. WAHN: Would you go so far as to say some undertaking or commitment was given to Parliament or to the Committee that the BIF group would never sell any of its shares to non-residents? I can understand that they would have given a commitment not to sell control of the company, but we are talking here I gather, about a 10 per cent interest.

Mr. COYNE: This is a situation which has arisen before they have even finished paying for the shares they were acquiring. That is rather different, perhaps, to waiting for five or ten years, or something of that sort. I do not say there was a commitment never to sell their shares. They have to have freedom to dispose of investments.

Mr. WAHN: Do you believe the statements made by Mr. Stevens were true at the time he made them?

Mr. COYNE: Yes.

Mr. WAHN: They were not false at that time?

Mr. COYNE: I do not think so.

Mr. WAHN: And now we have the Bank of Western Canada Act and the Treasury Board Minute which really form the governing documents relating to the operations of the Bank of Western Canada.

Mr. COYNE: I do not think they absolve the sponsors of the bank from the statements they made.

Mr. WAHN: Not even if made in good faith at the time?

Mr. COYNE: Of course not. They were made in good faith at the time, but the fact that something was put into the Act or the Treasury Board Minute does not mean that they are now free to do anything they like, governed only by those provisions instead of by their original assurances.

Mr. WAHN: Are you suggesting that what is said in the course of a Committee inquiry is binding and definite in the future, no matter how the circumstances may change?

Mr. COYNE: I do not know about that but certainly, in the spirit in which I made those assurances, I consider them binding.

Mr. WAHN: What did you feel was the specific thing which violated the spirit of the commitments given by you and Mr. Stevens to parliament? Was it the offering of an option of not more than 10 per cent of the shares to American interests, or was it the management arrangements; just what was it?

Mr. COYNE: It was the whole complex. It was all part of the same picture and I do not think you can pick out individual elements of it and say, that would have existed without the other elements.

That brings me to the second point I was going to make in answer to your question and that is a proposal which involved telling American banks even before they asked—going around offering it to them—that they could have special privileges and special arrangements of some sort with the Bank of Western Canada provided they did something, not just for the Bank of Western Canada, but for this particular group of majority stock holders.

Mr. WAHN: You could very well consider that rather irregular. When did you first hear of these negotiations with the Americans?

Mr. COYNE: Negotiations of some sort—the idea that a loan might be obtained by these companies from American banks and/or Canadian banks—were talked about from time to time over the last six months, but this particular feature of it and the tie-in with the Bank of Western Canada were not made known to me until Wednesday, February 1.

Mr. WAHN: This particular feature was tied in with the Bank of Western Canada. What was that? Do you mean the sale of the 10 per cent interest?

Mr. COYNE: Yes, and the other arrangements which were contemplated as I have outlined.

Mr. MACKASEY: Can I ask a question here, Mr. Wahn?

The CHAIRMAN: If Mr. Wahn will yield.

Mr. MACKASEY: I am trying to get it precisely as you said, Mr. Coyne, something particular for these major shareholders. Are you stating the reason these people have approached American interests to turn over 10 per cent of the shares of the western bank is, not to help the western bank, but to obtain funds for the B.I.F. group?

Mr. COYNE: Yes, that is right.

Mr. MACKASEY: Thank you.

Mr. WAHN: Just to be sure I heard you correctly, Mr. Coyne, did you say that prior to February 1 you had no knowledge of information that the BIF group was thinking of selling some shares in the Bank of Western Canada to American interests?

Mr. COYNE: That is correct.

Mr. WAHN: And for entering into any management arrangement with them? You heard this for the first time on February 1.

Mr. COYNE: No, nothing in the nature of an arrangement connected with financing in this way. We had been told by several people in the BIF group that they thought the way the Bank of Western Canda should operate was to make connections with some American banks they would name for us, with a view to showing us how to run a bank in Canada, suggestions which I did not think were very well founded.

Mr. WAHN: I can see why you might take exception to that as President and the responsible operating officer of the bank.

Mr. COYNE: From the management point of view we want to have relations with American banks, and for some purposes we have to have relations with American banks, but we want to choose them for ourselves for the maximum advantage of the Bank of Western Canada and, in many cases, they will be western American banks operating in the part of the United States nearest to our field operations.

Mr. WAHN: There is a policy difference here. Is there anything in this proposal which you heard of on February 1 which is contrary to the charter of

the Bank of Western Canada or to the Treasury Board Minute, or even to the proposed new banking bill on which this Committee is spending so much time?

Mr. COYNE: Everybody who has to consider that matter will have to form his own opinion of it, but I would say that when you are forbidden to borrow from a bank, but you seek to have that bank make some arrangement to your advantage with somebody else who is going to lend to you, you are trying to go in by the back door where you are forbidden to go in by the front door.

Mr. WAHN: I am not sure I follow that, Mr. Coyne. It is too involved for a simple lawyer. I wonder if I could ask you to restate that.

Mr. COYNE: When you are forbidden, or not allowed, or it is improper for you to borrow directly by going in the front door,—

Mr. WAHN: Who is "for you"? The BIF group?

Mr. COYNE: The BIF group. Then it is not a desirable thing, or something the bank itself or the sponsors of the bank should be proud of, to say that we will go around to the back door and make some other kind of arrangement based upon an ulterior motive, which is to have the bank do something for the benefit of American banks in order that those American banks, in turn, will do something for the benefit of the BIF; namely, lend them money.

Mr. WAHN: It is quite apparent that as long as you are president and chief executive officer of the Bank of Western Canada, no such irregular transaction could be carried out. Is that right?

Mr. COYNE: It had already been made. I was also a director of the companies that were making this arrangement with these American banks.

Mr. WAHN: So long as you are president and chief executive officer, backed up by the majority of the board of western directors who hold the same views as you do, no irregular transaction can be carried out. If the other directors are suborned and you find yourself in a minority and you think the transaction is irregular, then your duty, I presume, is to resign and this would be a resignation as president and director of the Bank of Western Canada. This is what puzzles me. Why did you decide to resign? If you felt that there was a real danger of this transaction going through, why did you not resign as President and director of the Bank of Western Canda, rather than just making a public statement and then resigning as director of these other two companies? This is the thing that puzzles me, quite frankly.

Mr. COYNE: I dare say it would have suited some people very nicely if I had done that, Mr. Wahn.

Mr. WAHN: But that is not quite an answer to my question because I have no preference, one way or the other.

Mr. COYNE: I am not finished with my answer yet. I was also a director and the Chairman of the Board on one of the BIF companies that apparently was making these approaches to these American banks and entering into these arrangements, and I could not let those American banks or anybody else think that I was going along with that sort of thing, or approving of it, or staying on a board which would do such a thing.

I told the directors of those companies that there were three good reasons why they should not enter into any such transaction. In the first place, it was their duty as directors not to borrow money which they had no reason to believe they could pay back. In the second place, it was their duty as directors of that company not to borrow money from someone to whom they had not made disclosure of relevant facts which, if disclosed, would have resulted in no loan being made. In the third place, if there was an ulterior purpose behind it which had only come to light, they were very wrong to be doing it in that way.

For all those reasons, after all the rest of the things I had been through and the trouble we have had with these people in the last few months, that was the final point at which I said, I shall resign and resign immediately.

Mr. WAHN: This is what triggered your resignation, in other words?

Mr. COYNE: Yes.

Mr. WAHN: The rest is just background, really.

Mr. COYNE: When you say it is just background, do you mean it does not count; that it is of no importance?

Mr. WAHN: No, it was a cumulative effect. This was the straw that precipitated your resignation. When you decided to resign and issue a statement like this, did you consider the effect it would have on financial institutions forming part of the BIF group and on public confidence? I gather you feel that their assets exceed their liabilities. Nevertheless, this type of thing, I would think, is bound to affect the confidence of the public in the financial institutions within this particular group.

Mr. COYNE: Mr. Wahn, do you suggest that a director should never resign in those circumstances?

Mr. WAHN: No, I do not suggest that. You did consider the damage that would be done to the companies?

Mr. COYNE: I did not know whether my resignation would do any damage. Certainly it would not do as much damage as would be done by the transactions that were being entered into and the knowledge that would ultimately become public about them.

Mr. WAHN: The nature of the public statement is what did the damage, not the mere resignation.

Mr. COYNE: It was the nature of the facts behind the public statement that did the damage, if there was any damage.

Mr. WAHN: Let us put it this way: you must have known, with your background, that great damage would be done to these companies and to public confidence in them as a result of what you did.

Mr. COYNE: I was not worried so much about what would happen to the particular companies immediately concerned because I considered it a duty—and I feel that all the directors had a duty—not to countenance the sort of thing that was being done. I was rather disturbed about the possibility that other innocent companies, even companies within the group, might be adversely affected by the repercussions of this matter. I gave a great deal of careful thought to it and had been doing for some time.

Mr. WAHN: Under these circumstances and knowing, I think, that great damage would be done, what efforts did you make to resolve your differences with Mr. Stevens?

Mr. COYNE: I have been making efforts for six months to see whether I could get through to him the objections I had to the kind of transactions he was proposing to enter into and the kind of management he was providing. I just had to conclude at a certain stage that there was no use trying to get through to him any more. He knew my views perfectly well; he had heard them over and over again.

The CHAIRMAN: Mr. Wahn, Mr. Coyne's use of the word "conclude" has drawn to my attention a note from the Clerk, who is keeping track of the time, indicating that your period of questioning has expired.

Mr. WAHN: May I ask one final question?

The CHAIRMAN: Yes.

Mr. WAHN: You recommend to this Committee—and this is a matter of prime importance, Mr. Coyne—that we should consider deleting the provision which would permit new banks to have more than 10 per cent held in single ownership for a limited period of time. It is very difficult to get a new chartered bank off the ground; we have only seven or eight after 100 years. Do you not think it would inhibit the formation of new chartered banks if no group were permitted to own, for a limited period of time, more than 10 per cent of the stock?

Mr. COYNE: That is not what I said, Mr. Wahn, I did not say that it should not be allowed to own the stock. I said the Act should be worded in such a way that they would not be able to exercise voting control.

Mr. WAHN: Well, whichever it is.

Mr. COYNE: I think it is rather different.

Mr. WAHN: Would you say, then, that it would not inhibit the formation of new chartered banks if you put a provision in the Act that no one person could exercise voting control over more than 10 per cent of the stock?

Mr. COYNE: It might inhibit some people from proposing to start a chartered bank. I hope it would not prevent other people from doing so.

Mr. WAHN: Thank you very much, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. Coates.

Mr. COATES: First of all, I would like to get a couple of further explanations from Mr. Coyne on some questions that have been answered. When Mr. Munro was questioning you on your press statement, you said that there were those three reasons and other reasons for your resigning from the directorships of companies in the BIF group. I wonder whether you would mind giving the other reasons to the Committee.

The CHAIRMAN: Could I interrupt to ask the guidance of the Committee on whether or not they feel that matters not related to the Bank of Western Canada and to the banking system generally are included in the general legislative purpose of this Committee at this time?

Mr. COATES: Mr. Chairman, on the point of order, we have been sitting here now for two and a half hours and during that two and a half hour period there has been a byplay back and forth between the Bank of Western Canada and the BIF group of companies. After that period of time are you asking for a point of order on it?

The CHAIRMAN: No, but up until now we have not gone into the area which covers what I gather to be some reasons Mr. Coyne had for resigning from positions he has held on the board of the BIF group of companies which are unconnected with the relationship between these companies and the Bank of Western Canada. If I misunderstood what Mr. Coyne had to say in that regard, that is a different matter. But I understood him to say that his resignation from the board he was on for the BIF group arose out of two sets of reasons; one set linked with the operations of the Bank of Western Canada and the links of the bank with the BIF group, and another set having to do principally with the BIF group itself. It is with respect to questions dealing with the latter set of reasons that I am raising a question at this time. Mr. Coyne, did I interpret your earlier remarks correctly?

Mr. COYNE: Yes.

The CHAIRMAN: I invite some comment from the Committee on whether we are straying further afield than we should at this time with respect to the second set of reasons.

Mr. LAMBERT: The Bank of Western Canada is now impossible.

Mr. FULTON: I think your point is well made, Mr. Chairman.

The CHAIRMAN: I have invited comments from the Committee and I have noted those from Mr. Fulton and Mr. Lambert. I would be happy to accept others, but these seem to support the view I have taken. I am not saying that in another context those questions might not be useful, but I suggest perhaps you may want to limit your questions to the area of the Bank of Western Canada.

Mr. MACKASEY: On a point of information Mr. Chairman, what did Mr. Coates ask that deviates from what you think should be the line of procedure this evening?

The CHAIRMAN: When we began our hearings earlier today, several members—I cite principally Mr. Lambert and Mr. Cameron—made comments indicating that in their view the questioning should relate to the order of reference of the House of Commons which puts this legislation before us. As I summarize what they had to say and add my own view as Chairman, the questions should relate to the legislative purpose of studying and reporting on the various bills referred to us by the House. The Committee seemed to be in agreement with that. I indicated I would try to keep the questioning within that ambit, although I realized the difficulties and I would not attempt to analyse every last sentence or clause. This is the basis for my interjection at this time.

Now, to carry on a bit further, I think Mr. Coyne made clear this warning that he resigned from the BIF group of companies for two separate sets of reasons; one arising out of the links of the BIF group with the Bank of Western Canada; the other set relating strictly to the BIF group itself. I understood Mr. Coates desired to ask questions about the latter group of reasons—and if I am

mistaken I should be happy to apologize—but it is my view that insofar as questions relating to the second group of reasons, are concerned, we are straying a bit further than we should.

Mr. COATES: Perhaps I had a misunderstanding from what Mr. Coyne said. I had not assumed that the others reasons referred to when he was being questioned by Mr. Munro were not associated with the Bank of Western Canada. Am I now to assume that the reasons in the press release are those reasons which you associated with the Bank of Western Canada and the other reasons were not?

Mr. COYNE: My first paragraph indicated I have resigned from the boards of these companies

> as I no longer have confidence in the management or policies of those companies.

The second paragraph read:

> In particular, in their relations with the Bank of Western Canada

and so on. The third paragraph gave further amplification of what was in the second paragraph.

Mr. COATES: Yes, but I am asking you now whether these are the reasons, and there are no other reasons, for your resigning from the boards of directors of these companies insofar as your association with the Bank of Western Canada is concerned. Is that correct?

Mr. COYNE: I think I would have resigned from the boards of these companies even if I had not been connected with the Bank of Western Canada.

The CHAIRMAN: Mr. Coates, would you like to continue?

Mr. COATES: A statement you made when being questioned by Mr. Wahn was to the effect that in dealing with the United States banks, one of these companies had no reason to believe the loan which they were endeavouring to secure could be paid back.

Mr. COYNE: They had no idea at the time how they would obtain the funds to pay off that new debt when it came due. They did have assets which they could endeavour to sell and probably they should have started endeavouring to sell those assets a good many months ago. But at the time they were proposing to borrow they did not know whether they could or could not sell those assets.

Mr. COATES: Was this company York Trust and Savings Corporation?

Mr. COYNE: No.

Mr. COATES: I now have a little different line of questioning, Mr. Coyne. To your knowledge have any actions been taken by anyone to remove you as president of the Bank of Western Canada?

Mr. COYNE: No, I do not know of any actions taken except the suggestion made to me by one of the directors of the BIF that someone who knew more about banking than I did and was superior in status in the banking world to our general manager should probably go in there as president and I should take some other position.

Mr. COATES: When was this suggested to you?

Mr. COYNE: I do not know if it was on February 1 or a little earlier than that; I cannot recall.

Mr. COATES: It was after the December 16 meeting?

Mr. COYNE: Yes.

Mr. COATES: It was possibly two days prior to your resignation?

Mr. COYNE: I am afraid I would have to conjure my recollection on that. There were so many of these discussions and that particular one is perhaps, not terribly important. I cannot put the date on it; it was very recent.

Mr. COATES: Do you mind identifying the individual?

Mr. COYNE: No, it was Mr. Bell.

Mr. COATES: It was Mr. Bell and this was the only indication you had?

Mr. COYNE: Yes.

Mr. COATES: I would now like to refer to your initial statement with regard to deposit insurance provisions under the Bank Act. I believe when some one asked if they had any reference to the Bank of Western Canada, you replied that they did not.

Mr. COYNE: In this way, Mr. Coates: I think deposit insurance is a good thing and that all banks should come under it. It is a particularly good thing for new banks and small banks, not so much to insure their own deposits, but to insure the deposits of other financial institutions; if they got into trouble, there might be adverse consequences which would affect the Bank of Western Canada because the new bank was a small bank; the ripples spread out.

Mr. COATES: In 1965 the province of Ontario came to the rescue of depositors of British Mortgage and Trust by guaranteeing something like $3 million in loans if they were needed. In view of your position as chairman of another BIF company, the York Trust and Savings, which is also a trust company of the province of Ontario, do you have any knowledge of any provincial guarantee or intervention at this time of similar nature?

The CHAIRMAN: May I interrupt again at this time? Perhaps, Mr. Coates, you might indicate how this relates to the subject matter of inquiry at this time?

Mr. COATES: In view of the fact that Mr. Coyne is chairman of the York Trust and Savings Corporation—and you still are chairman of that corporation?

Mr. COYNE: No.

Mr. COATES: You resigned from that company earlier?

Mr. COYNE: No, at the same time.

Mr. COATES: At the same time. It was not stated in the press release.

Mr. COYNE: It is not stated, no.

Mr. COATES: But you did this on February 3, as well?

Mr. COYNE: February 1.

Mr. COATES: I see. Was this one of the reasons why you resigned from York?

The CHAIRMAN: I feel I must intrude again. You want Mr. Coyne to indicate what you were asking before, whether the problems with York Trust and Savings and the government of Ontario and so on, were the reasons for his resigning. I think this is an area which the Committee seems to agree is not one we should be going into.

Mr. COYNE: I think I should just say, to prevent misunderstanding where it might do harm, that by the time I resigned from York Trust they had a new president of whom I strongly approve, and from what I have seen I think the policies he is applying there are very good. I did not resign from York Trust because of any apprehension about their management or their policies from that point on.

The CHAIRMAN: Thank you, Mr. Coates. Mr. Lind, I was not clear before whether you merely had a supplementary question or whether you wished to take a regular turn. If so, this would be the time when you would be recognized.

Mr. LIND: Mr. Chairman, I wished to ask a supplementary. There were no minutes of the December 16 meeting when the request for accommodation was presented by the BIF group. Is that right?

Mr. COYNE: There were minutes of the meeting but the minutes did not record that request.

Mr. LIND: What was the amount of this accommodation, $1.3 million?

Mr. COYNE: Apparently, yes. The figure was based on 10 per cent of the bank's capital and reserves.

Mr. LIND: What did you understand this $1.3 million was to be used for?

Mr. COYNE: I have dealt with that question already, sir. There was nothing specific said in that connection.

Mr. LIND: Was there any chance of it being used to purchase the $1,450,000 worth of shares outstanding on this pledge?

Mr. COYNE: I suppose there was always a chance. I am not sure whether or not it would have come to pass quickly enough to meet the date which was being set for that purpose. I do not think it was specified in any way what the funds would be used for if they were drawn.

Mr. LIND: Thank you very much.

Mr. MUNRO: May I ask a supplementary question?

The CHAIRMAN: Yes, I will accept your supplementary question at this time fol'owing which I will recognize Mr. Mackasey, Mr. More, Mr. McLean followed by Mr. Grégoire.

Mr. MUNRO: Mr. Coyne, in answer to questions by Mr. Wahn, I believe, you were talking about the BIF doing something indirectly which they are prohibited from doing directly. You talked about the borrowing of money from United States banks, or interests in the United States. I do not believe you ever mentioned the amount involved. Did you ever have any information of just how much money this group intended to borrow from across the border?

Mr. COYNE: Yes.

Mr. MUNRO: How much was that?

Mr. COYNE: I am not sure whether it is appropriate for me to answer that.

The CHAIRMAN: This borrowing was to be by the BIF group?

Mr. COYNE: Yes, for their purposes.

Mr. MUNRO: It is my understanding that they indicated they would be prepared to give a stock option to these same interests for 10 per cent.

Mr. COYNE: The total line of credit in question was to be $2.5 million.

Mr. MUNRO: Thank you, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. Mackasey.

Mr. MACKASEY: Mr. Chairman and Mr. Coyne, my questions will be very brief and I apologize if I repeat some of the questions that were asked today. I could not be here this afternoon and I apologized in advance. Just to clarify in my own mind the statement which you issued on February 3, I might read it back to you. Referring to these particular groups it reads:

> They are presently engaged in a borrowing operation with American banks which involves the giving of an option on 10 per cent of the total shares of the Bank of Western Canada and various arrangements designed to tie in the management and operations of the Bank to the operations of these American banks, again contrary to statements made when applying for a charter.

In other words, they were doing this for their own particular benefit and not for any particular benefit of the Bank of Western Canada?

Mr. COYNE: Yes, that was my feeling on the subject.

Mr. MACKASEY: As late as March 8, 1966, Mr. Stevens said before the Committee—and I will read this little paragraph to you:

> The other point I would like to mention, Mr. Horner, in connection with your suggestion that there be some interrelationship between our other trust companies and the Bank of Western Canada, is this. I think, as was mentioned in evidence earlier, there certainly is no proposal or suggestion in our mind that the Bank of Western Canada, in fact, would become the banker to the group. I can assure you this will not happen.

This was stated by Mr. Stevens on March 8, 1966. In your opinion Mr. Stevens and his group have been acting directly contrary to this statement?

Mr. COYNE: Yes, they have been making suggestions and urging me and the bank to do things of the sort which, in my opinion, contravene those assurances.

Mr. MACKASEY: This next question will be clear to you only when you read back what you said earlier in answer to Mr. Wahn. At the time, Mr. Wahn, in asking a question, mentioned that you had the support of the majority of the western directors. It referred to irregular transactions. Am I not correct in saying that you would not be a party to any irregular transation whether you had the support of the majority or not?

Mr. COYNE: That is true; on the other hand, I certainly hope and desire to have time to see that there was a majority of people who thoroughly understood the situation so that it could be dealt with effectively then and in the future.

Mr. MACKASEY: Mr. Coyne, this, again, is probably a question that has been asked many times, but I would like to get the answer so that I can study it tonight.

You resigned on the 1st of February?

Mr. COYNE: Yes.

Mr. MACKASEY: When did you first think of resigning from the BIF group?

Mr. COYNE: I do not know. The matter came up in several different ways. I moved from Toronto to Winnipeg last June mainly in anticipation of the setting up of the Bank of Western Canada although if the charter had not passed Parliament I still, I think, would have stayed in Winnipeg. There obviously always was a possible conflict between holding directorships on the bank and on these major shareholding companies and that at sometime that would have to be resolved. Indeed, in the Bank Act, it says that you must resign within two years after the day on which the ceiling on bank loan rates is abolished. What the connection is, I do not know, but at some stage in the future everybody will have to resign, either from the bank or from these other companies.

Mr. MACKASEY: Therefore, you may have resigned for very normal legitimate reasons under normal circumstances?

Mr. COYNE: At some time I would have. On the other hand, I did not want to be precipitate about that for the reason that was being suggested by Mr. Wahn.

Mr. MACKASEY: In your statement there are two paragraphs, one which I think was read earlier and which says that you no longer have confidence in the management or policies of those companies, which is only of passing interest to us. Would you have resigned strictly on the substance in paragraph 2, which I will read to you:

> In particular, in their relations with the Bank of Western Canada (in which they have voting control through stock holdings), they appear to have forsaken principle for expediency, and their image is doing a disservice to the Bank of Western Canada.

Mr. COYNE: With the amplification given in the third paragraph, yes, that would have been sufficient to make me resign.

Mr. MACKASEY: Thank you, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. More, followed by Mr. McLean, Mr. Grégoire and also Mr. Latulippe.

Mr. MORE: Mr. Chairman, many of the questions I had in mind have been put.

I would like to clarify, if I can the reason for Mr. Coyne's choice of February 1 as the date for resigning his connections with the BIF group.

As I understood it, Mr. Coyne, you had been aware for some six months of their exploring the American market for finance?

Mr. COYNE: Yes.

Mr. MORE: This in itself did not disturb you? There was nothing abnormal about this group seeking funds in this manner at this time?

Mr. COYNE: So long as it did not involve the Bank of Western Canada; however, the situation was changing in many ways, as well.

Mr. MORE: But as long as it did not involve the Bank of Western Canada the seeking of these funds by this group was a perfectly legitimate, normal business operation?

Mr. COYNE: I would have said so, under normal circumstances.

Mr. MORE: I would like to leave that at the moment and proceed to other points.

In answer to some questions from Mr. Wahn and others you talked about actions of the management of the BIF that occurred during a period, being unacceptable to you. I do not want to ask you for the reasons. I want to make the point, though, that although you were aware of these situations you still remained in your positions with these companies until February 1. This is correct?

Mr. COYNE: This is correct; but, of course, the situation was changing in many ways all during that period. If you were to ask why did I not resign a week before, a month before, or two months before, or somebody else were to ask why I did not wait because I did damage by resigning even on February 1st, or why I did not wait for a week, a month, or six months, my answer would be that I am a human being and I had to make a very difficult decision. I did not want to rush into it, but when the time came I felt I had to make it.

Mr. MORE: Mr. Coyne, I know my questions are not exactly yes and no questions; your are not exactly anticipating, but you are enlarging on your answers to the questions I have put.

The point I want to make is that these things are admitted, and you agree that I have put the case properly, but the fact is that, as I understand your evidence and your press release, what brought about you resignation was not these things at all because you had not resigned on account of them, but the fact that you finally learned in that the negotiations for the money from the banks in the States they had given an option on Western Bank shares to these banks. It was this that prompted you to choose that time to resign, was it not?

Mr. COYNE: You have put a long question and statement and I cannot give a Yes or No answer.

Mr. MORE: I wanted to make the statement clear.

Mr. COYNE: First, I would like to say that there was a cumulative effect of quite a number of developments, and, secondly, as you have said, the final development which occurred on February 1st was such that I felt, "I cannot stay any longer. There may be reasons why I should stay on under some circumstances, but this is too much. I must leave now." It was not just the one thing you picked out, but the whole business of the fact that they had been canvassing American banks and offering them this kind of special arrangement with the Bank of Western Canada, which had only come to fruition, apparently, very recently.

Mr. More: Do I understand from your statement that they have obtained the line of credit and that it is with the option on the shares of the Bank of Western Canada?

Mr. Coyne: So said the man who was negotiating this in New York on behalf of the companies, and who came to the meeting of the boards on February 1st.

Mr. More: You were informed on February 1st that negotiations for the line of credit had been concluded and that the agreement involved an option by the BIF group to this bank—

Mr. Coyne: And other suggestions about how the Bank of Western Canada would participate in various kinds of transactions with the American banks.

I was told as early as January 13 that a favourable reception had been received from these banks in New York. I frankly did not believe that, in fact, any loan would develop from that, because I did not believe any bank in New York or elsewhere would make a loan under those circumstances if it knew the facts. It was not until February 1st that I learned what special reason might be that, in fact, had led these banks, as the man from New York said, to provide a line of credit.

Mr. More: Would it be fair to ask, Mr. Coyne, if, during the period of six months or so when things were building up and these events were taking place, at any time these events were of such a nature as to involve the integrity of the deposits or the moneys invested by the general public in these companies?

Mr. Coyne: I am not sure that I understand that.

Mr. More: In a statement with regard to York Trust you said that you had confidence in the new management and their policies.

Mr. Coyne: Yes.

Mr. More: During the period you referred to, when you were having your quarrel and your disagreements with Mr. Stevens and the management of the BIF group in regard to unmentioned problems because they are outside the scope of this Committee at no time were they of such a nature as to involve a lack of confidence in their ability to meet their obligations and the protection of the general public who had invested in them?

Mr. Coyne: I have said that in my opinion these deposit-taking institutions have a large surplus of assets over liabilities, and these assets are sound assets. There could have been other questions on whether they were being maintained in sufficiently liquid condition and whether at any given moment they were operating from day to day in the right way, but the basic position was as I have stated, and it still is.

Mr. More: Therefore if their position is sound, whatever the problems were they were not of a nature such as to cause you to resign?

Mr. Coyne: Insofar as you are relating it to a particular type of circumstance, you are right.

The Chairman: Mr. More, I actually placed a limit on Mr. Coates when he was asking this type of question, and I think in fairness to him I should perhaps

interject at this point. I allowed the question to be answered because I felt that if it were left hanging in the air there might be drawn some inferences which ought not to be drawn. As I said, in fairness to Mr. Coates, I think we should perhaps try to relate our questions more directly to the Bank of Western Canada.

Mr. MORE: I was just trying to elicit whether Mr. Coyne's resignation, was, in fact, because of the interference with, or the apparent play of the BIF group on, the policies and development of the Bank of Western Canada.

Mr. COYNE: That is what appeared to me to operate most strongly on my mind, and to make it necessary for me to say that my primary responsibility was to the Bank of Western Canada.

Mr. MORE: This is the point I was trying to make. I did not want to get into the other matter to any extent.

Now, Mr. Coyne, I would like to deal with the $1,450,000, that has not been paid in subscriptions that were made, I take it, some three years ago. The intent was made in regard to these subscriptions; is this not so?

Mr. COYNE: Yes; I think a letter was written at that time.

Mr. MORE: And during the course of negotiations was any letter of renewed intent given by this company in regard to this subscription?

Mr. COYNE: That was done in September of 1966, I think.

Mr. MORE: In September 1966, they indicated by letter their intention—

Mr. COYNE: There was no bank to which to address the original letter, and if I am right in my recollection it was sent to the auditors who certified some figures in relation to the prospectus that was being put out; but after the bank received its charter the major subscribers, I believe, all signed a letter of subscription addressed to the bank.

Mr. MORE: And the defaulters were included in that group?

Mr. COYNE: Yes; a separate letter was sent by that company.

Mr. MORE: Am I right in saying that by public subscription they got $3 million which was not tied to this subscription but which was raised so that they could meet this subscription when it became due?

Mr. COYNE: If it became due.

Mr. MORE: If it became due; and the reason, perhaps, why it has not been paid is because during lengthy time involved in negotiations they had invested this money and they are not now in a liquid position in which they can meet this subcription? Is that right?

Mr. COYNE: That is correct; plus the fact that $700,000 of the liquid position they would need to meet that subscription was to be paid to them by British International Finance.

Mr. MORE: And this has not been paid by the British International Finance either?

Mr. COYNE: I believe that must be correct.

Mr. More: To what extent does the non-payment of this subscription inhibit your proceeding with the bringing about of the operation of the Bank of Western Canada?

As I remember the evidence, you said quite proudly that no group had ever received a charter with subscriptions in the amount that you had, and I take it that the subscription of this $1,450,000 is still larger by far than most other banks have when they get their charters. How much is this going to inhibit you. Why is the matter of the demand for this payment at once of such importance.

Mr. Coyne: If it is merely a matter of statistics, of whether we can get along on $11,500,000 instead of $13,000,000, of course we can. Still it is a smaller sum; it is a sum that was promised that was not paid; and it is an indication, in my mind, of certain attitudes which did not take the kind of steps that might have been taken to acquire liquid funds.

Mr. More (*Regina City*): Was your resignation on February 1 at all prompted by the backing of the western directors of the Bank of Western Canada? Did they make a request to you to resign?

Mr. Coyne: Individually they have been telling me for some little time that they thought I should resign from the other companies and establish the fact that I was representative only of the general shareholders, or the general public, or whatever way you want to look at it, and only a director of the Bank of Western Canada and not of the BIF companies.

Mr. More (*Regina City*): What was the date of the approval by the Governor in Council of your bank in Eastern Canada.

Mr. Coyne: You mean the certificate entitling us to commence business?

Mr. More (*Regina City*): Yes.

Mr. Coyne: It was dated December 8.

Mr. More (*Regina City*): And in fact within two months of that you had resigned from these conflicting positions?

Mr. Coyne: Yes.

Mr. More (*Regina City*): I would like now to turn to your remarks about deposit insurance. I am wondering if they were not misleading, at least to the public if not to the Committee, in that you mentioned the desirability of having this legislation quickly because of the collapse of Prudential. Do you suggest that the present proposed bill would in any way cover the situation of Prudential?

Mr. Coyne: No; what I meant was that the collapse of Prudential, though it was not a fiduciary institution such as a trust company or a mortgage company, registered and specially inspected and so on under provincial or federal law, had had an unsettling effect on general public sentiment and a number of people had expressed the fear that this effect would spread and that deposit-taking institutions might be affected by it. It semed to me that the best possible answer to that kind of potential danger would be to have the public authorities state firmly and promptly that deposit insurance, or some form of guarantee of depositors, was going to be a fact and indeed was informally to be accepted from that point

on; and that this would allay any possible public alarm and mean that things would be done in an orderly fashion.

Mr. MORE (*Regina City*): Do you feel that there is a public lack of confidence in our present chartered banks and in our large trust and loan companies?

Mr. COYNE: No, sir, I am referring only to the thoughts expressed by other people in various places—that there was a possible danger of a spreading of this feeling of unrest. I am not saying that I was talking this way.

Mr. MORE (*Regina City*): Do you feel that the proposed umbrella of the act is large enough in scope?

Mr. COYNE: I have spent a good part of my life thinking in terms of deposit-taking institutions and I really have not given much thought to bringing in other types of institutions.

The CHAIRMAN: I now recognize Dr. Mclean.

Mr. MCLEAN (*Charlotte*): Thank you, Mr. Chairman.

Mr. Coyne, banking has a great deal to do with confidence, has it not?

Mr. COYNE: Yes, I think so.

Mr. MCLEAN (*Charlotte*): Take, for instance, the City and District Savings Bank. It had a run on it the other day. Everyone knows that it is quite solid. These things can happen?

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): When you and Mr. Stevens appeared before our Committee, you apparently had confidence in Mr. Stevens and the companies that he represented at that time.

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): Apparently this confidence has deteriorated over the months, and you now find that you can no longer go along with him.

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): On March 3, I quoted to you what Mr. Graham Towers said at the 119th Annual Meeting of the Canada Life Assurance Company:

> To my mind, some of the most interesting features of the economic scene in 1965 are to be found in the field of credit, both domestic and international.
>
> In Canada, bank deposits—the major component of the money supply—rose by 2 billion and 92 million dollars or 13 per cent in the year ended 30th November last.

Then he goes on to say:

> The offset for the increased deposits in recent times has been, in the main, bank loans.

Further, he says:

> To the extent that business activity is supported by unsound extension of credit, there is obviously a day of reckoning to be faced.

Do you not think that when you appeared here previously that was true, and that there was a day of reckoning? The day of reckoning is a little late now. Do you not think that you should at that time have faced the day of reckoning.

Mr. COYNE: Perhaps a wiser man would have Mr. McLean. I can only say that at that time I felt that things were going to be all right.

Mr. MCLEAN (*Charlotte*): That is the reason for my quoting that. I thought that the day of reckoning was coming.

Mr. COYNE: That was eleven months ago?

Mr. MACDONALD (*Prince*): On what page is that?

Mr. MCLEAN (*Charlotte*): It is page 116 of March 3, 1966.

Mr. Towers goes on to say:

> Of course, the whole object of the exercise was to suggest that we should try to profit in the future from the lessons of the past, and also to point out that the world is in a much better position to deal with such problems than it was thirty-six years ago. But to a generation of lenders, and borrowers, who have never had their fingers seriously burnt until very recently, it is hard to get such a message across.

When I was trying to put this message across everything looked lovely.

Mr. COYNE: Sir, I am not sure that we discussed it at that point, but I think I did mention then in this Committee that I thought deposit insurance was a desirable thing.

Mr. MCLEAN (*Charlotte*): I think a lot of concerns in Canada need deposit insurance.

Mr. COYNE: The public needs it.

Mr. MCLEAN (*Charlotte*): The public needs it; but the Bank of Western Canada is not a going concern yet, so they do not need it, do they?

Mr. COYNE: I am thinking now of the public interest and the environment within which the Bank of Western Canada will be operating when it opens its doors.

Mr. MCLEAN (*Charlotte*): Were you thinking of the companies that you have been associated with when you mentioned that you thought that we should have compulsory insurance?

Mr. COYNE: Sir, I first started to advocate that about 10 years ago, before I was associated with any of these companies.

Mr. MCLEAN (*Charlotte*): Again you say:

> We took special precautions to meet the argument that a new bank might fall under the domination of foreign interest and might sell out to foreigners. You took special precautions, but they were not good enough. It still happened, did it not?

Mr. COYNE: Yes; whatever happened, happened; you are making the point, not I.

Mr. MCLEAN (*Charlotte*): It seems to me that the Committee must conclude that you were taken in a bit.

Mr. COYNE: Do I have to make any comment on that?

The CHAIRMAN: Mr. Coyne, do you have any comment in reply to Dr. McLean's question? If not, I will invite him to proceed to his next one.

Mr. MCLEAN (*Charlotte*): I was just bringing out that it was a lack of confidence on Mr. Coyne's part, gradually developed over the months, that led to this situation; but when Mr. Coyne appeared here the financial situation was plainly to be seen by someone who was wise enough to look at it. We were in a period when this was going to happen. I think that Mr. Coyne, being a financial man of the first water, should have seen those things at that time.

Mr. COYNE: We had already had the Atlantic Acceptance and British Mortgage affairs a year earlier.

Mr. MCLEAN (*Charlotte*): It says here that Mr. Towers said:

> While all the facts behind the failure of Atlantic Acceptance and the related difficulties of other companies are not yet known, it is obvious that their lending and investment policies were unsound.

Mr. COYNE: They were worse than that; they were dishonest.

Mr. MCLEAN (*Charlotte*): Yes.

Mr. COYNE: There is no suggestion here that there is dishonesty involved in any of the present situations.

Mr. MCLEAN (*Charlotte*): This situation is merely a development of what was plain to some people at the time that the Western Bank charter was granted.

The CHAIRMAN: I now recognize Mr. Grégoire.

(*Translation*)

Mr. GRÉGOIRE: Mr. Coyne, do you not have the support of the majority of West bank directors?

(*English*)

Mr. COYNE: I think so, yes.

(*Translation*)

Mr. GRÉGOIRE: Mr. Coyne, you say there were $13 million worth of shares subscribed and paid up in Westbank, is this so, subscribed and paid?

(*English*)

Mr. COYNE: Thirteen million dollars.

(*Translation*)

Mr. GRÉGOIRE: Subscribed?

(*English*)

Mr. COYNE: Yes.

(*Translation*)

Mr. GRÉGOIRE: Of the $13 million of shares subscribed, how many of them are paid up?

(*English*)

Mr. COYNE: One million and a half are not paid.

(*Translation*)

Mr. GRÉGOIRE: Not paid, a million and a half worth of shares. And the only amount not paid is the amount subscribed by BIF?

(*English*)

Mr. COYNE: Yes.

(*Translation*)

Mr. GRÉGOIRE: Mr. Coyne, supposing you gave the required notice and succeeeded in having this $1,450,000 worth of shares subscribed and not paid up, declared non-voting shares. In other words if the normal voting right was withdrawn from the shares, BIF would no longer have a majority?

(*English*)

Mr. COYNE: This is a matter for the lawyers. We have not yet received an opinion on the subject.

Mr. GRÉGOIRE: But you have asked for one?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: Suppose they say that they cannot vote. The BIF group would no longer be the majority shareholder in the Bank of Western Canada?

Mr. COYNE: They would still be very large, of course. They would still have 40 per cent or something of that order.

Mr. GRÉGOIRE: But they would no longer be the majority shareholder?

Mr. COYNE: Not in total; but at a given meeting of shareholders they might be in the majority.

Mr. GRÉGOIRE: Would you be able to take control of the bank in that way?

Mr. COYNE: I?

Mr. GRÉGOIRE: Yes.

Mr. COYNE: No.

Mr. GRÉGOIRE: If you have a majority of directors supporting you would there be a mathematical possibility that you could take over the bank?

Mr. COYNE: I do not understand the phrase "take over the bank".

(*Translation*)

Mr. GRÉGOIRE: The complete control, I believe, as you said.

(*English*)

Mr. COYNE: May I say this; that the management of the bank is entrusted by statute to the board of directors, whoever they may be from time to time, and the board of directors can be changed by the shareholders once a year, or more frequently if they wish. This is done at a meeting of shareholders. And what happens depends on how the vote goes at that meeting. Now, if a great many

shareholders did not come to meetings and a great many shareholders did not send in proxies for voting, the people who had 40 per cent all in one hand would be in a very strong position.

(*Translation*)

Mr. GRÉGOIRE: But, what I would like to know, Mr. Coyne—since you have stated that you have the support of the majority of the directors of Westbank—if the $1,500,000 of shares were declared non-voting shares, would this give you a mathematical possibility, with what you know of the other shareholders, to take over the control of Westbank?

(*English*)

Mr. COYNE: The bank is controlled by the board of directors, and they now exist. The only question you raise is whether, at some shareholders' meeting, a change might or might not be made in the Board of Directors.

Mr. GRÉGOIRE: May I put it in English, Mr. Coyne? With the support help of all the shareholders, or the directors, if an amount equal to $1,450,000 were not voted, with the support you now have would that make it possible for you and your group to take over the control of the bank?

Mr. COYNE: I do not like the words "possible to take over the control of the bank". The directors now control the bank, and it is only a question of how, within the board of directors, decisions are taken.

Mr. GRÉGOIRE: Then, if the board of directors now controls the bank, and you have the majority of supporters, why does this situation exist? If there is a request for a loan by branches of the BIF group you just have to refuse it and there would be no problems. What was the problem at this point.

Mr. COYNE: You would have a very unhappy life, Mr. Grégoire, if you were president of a bank and a solid group of shareholders sold 40 per cent of the shares and were constantly pressing you to do things their way. You would never know but that at the next meeting of shareholders they might be in the majority.

Mr. GRÉGOIRE: That is exactly why I asked you. Suppose the $1 million shares are declared non-voting shares. Can you and the group supporting you take over control and appoint a board of directors of your choice?

Mr. COYNE: I do not know. That would depend on how the remaining shareholders voted.

Mr. GRÉGOIRE: Then you do not have to have the majority of them?

Mr. COYNE: There are 5,000 of them and I do not know how they would vote. All I have said is that a majority of the present board of directors has said that it supports the action I have taken in resigning from the BIF companies and issuing a public statement about it.

Mr. MORE (*Regina City*): Mr. Grégoire, can I ask one supplementary?

Mr. GRÉGOIRE: Yes.

Mr. MORE (*Regina City*): Mr. Coyne, can the directors of the bank be changed at other than an annual meeting?

Mr. COYNE: I think so, if another shareholder's meeting is called for that purpose and with notice given and notice calling the meeting.

Mr. GRÉGOIRE: Is it on a question of principle that you talk about this $1,500,000, or does the bank really need it?

Mr. COYNE: It is a question of principle, yes.

Mr. GRÉGOIRE: It did not cause a policy of tight money in the Bank of Western Canada?

Mr. COYNE: No.

Mr. GRÉGOIRE: Following that, Mr. Coyne, you resigned from the British International Finance (Canada) Ltd?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: Is that a Canadian company?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: Were you president of it?

Mr. COYNE: No; just a director.

Mr. GRÉGOIRE: Are there any British interests in the company?

Mr. COYNE: No, I do not believe so.

Mr. GRÉGOIRE: But it is called British International Finance. Is this better for financing—

The CHAIRMAN: Mr. Grégoire, I think that we are now straying into an area—

Mr. GRÉGOIRE: That was just going through my mind because I read the name of the company, Mr. Chairman. If I ever go into finance I will call the company "British", too, if it will mean that I will do better.

Mr. COYNE: I may say that the name of this company came before you in this Committee, and before the House of Commons report reached this committee, and before the Senate and their committee, several years ago, at a time when I was not a director of the company. The company has existed for some time. I did not go on the board of that particular company until a year ago.

Mr. GRÉGOIRE: You resigned from this company and from the York Trust?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: Was this because you were dissatisfied with the operations of the company?

Mr. COYNE: Well, I specifically mentioned the British International Finance company and the Wellington Financial Corporation Limited in my statement. I did not make any statement about York Trust.

Mr. GRÉGOIRE: Because you were dissatisfied with the way it was going?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: When you were dissatisfied with the policy of the Government of Canada and the way it was going you did not resign from the Bank of Canada. I would like to know what changed your course of action.

Mr. COYNE: Because I was potentially held responsible for the affairs of this company. I was not held responsible for the actions of the Government of Canada.

Mr. GRÉGOIRE: But you were held responsible for the actions of the Bank of Canada.

Mr. COYNE: Oh, for the Bank of Canada? I was in accord with the policy followed by the Bank of Canada.

Mr. GRÉGOIRE: The bank's money policy?

The CHAIRMAN: Mr. Grégoire, some arms of our Parliament explored this issue at some length a few years ago.

Mr. GRÉGOIRE: I was not there at that time, Mr. Chairman.

The CHAIRMAN: No; but I do not think that is justification for reviewing the whole issue at this point.

Mr. GRÉGOIRE: Now, I will take the second reason which you mention here where you say:

> ... they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the committees of the Senate and of the House of Commons.

In view of the fact that the Treasury Board had passed a regulation that this could be done provided you had the consent of the Minister of Finance, could that have been done without the consent of the Minister of Finance?

Mr. COYNE: No.

(*Translation*)

Mr. GRÉGOIRE: If the consent of the Minister of Finance is given, in view of the fact that Parliament gave the Minister of Finance the right to approve of Westbank granting loans to these BIF companies, was this not above and beyond the undertakings entered into with the Senate and House Committees, since the whole Parliament gave the Minister of Finance the right to make that rule?

(*English*)

Mr. COYNE: No, not at all. I do not think that absolved the directors of the bank of their responsibility, or of their duty, in any way. It was just that if they did decide that they wanted to do a certain thing it would require the further approval of the Minister of Finance. But the first thing he would ask would be. "What decision have you taken and what responsibility are you taking in the matter?"

Mr. GRÉGOIRE: But this would be contrary to the statements made to the committees of the Senate and of the House of Commons, because the whole of Parliament gives the Minister of Finance the permission to consent.

Mr. COYNE: Yes; but they did not expect him to consent to something that ran counter to an assurance, I am sure. Conceivably they thought that an extraordinary situation might arise some day in which Minister should have ultimate power of exemption. Now, I do not know what that would be. As far as I am concerned nothing has arisen that would have justified that.

Mr. MACKASEY: May I ask Mr. Coyne if he is aware of the statement of the Minister of Finance in the House of Commons yesterday, or the day before, on what actions he would have taken if the request had come to him?

Mr. COYNE: I have only seen the newspaper account.

Mr. MACKASEY: Do you not take the trouble to read *Hansard?*

Mr. COYNE: I have not seen *Hansard.*

Mr. MACKASEY: Have you any doubt in your mind on what he would do?

Mr. COYNE: I have no doubt in my mind about his being a man of his word, no.

Mr. MACKASEY: Nor have I. Thank you, sir.

Mr. GRÉGOIRE: Well, Mr. Coyne, I understood from your testimony that you felt that you were being personally engaged before the committee of the Senate and of the House of Commons because of statements you had made before those committees?

Mr. COYNE: Yes.

Mr. GRÉGOIRE: But afterwards the whole of Parliament gave the Minister of Finance the permission to consent to such loans by the Bank of Western Canada to the BIF group.

Mr. COYNE: Not really, no; Parliament did not do that.

Mr. GRÉGOIRE: They gave permission to the Minister of Finance to adopt some rules.

Mr. COYNE: Parliament did not. Parliament gave permission to the Treasury Board to lay down terms and conditions under which someone might hold more than 10 per cent of the stock of a new bank and, secondly under which someone holding more than 10 per cent of the stock might exercise voting rights in respect of it.

The Treasury Board order saying that certain things should not be done unless the Minister of Finance approved was completely unknown to me. I would have had no intention of doing any of those things at all, in any case, and I did not know that this was going to be in the Treasury Board order; and I am quite sure that Parliament did not, either.

The CHAIRMAN: You are not suggesting, Mr. Coyne, that the Treasury Board order goes beyond the scope of the legislation under which it was issued?

Mr. COYNE: No, of course not. I an inclined to say that it was a work of supererogation.

The CHAIRMAN: I think that perhaps you might elaborate on what you actually have in mind.

Mr. COYNE: Well, as far as I am concerned the responsibility that lay on me and on the other members of the board to observe the assurances given to Parliament was an absolute responsibility and did not need reinforcing by any direction to that effect from the Treasury Board.

Mr. GRÉGOIRE: But you agree that the Treasury Board—

Mr. COYNE: And since the Treasury Board did then reinforce it, I do not think that that absolved me of my own responsibility, or that it absolved the Board of Directors either.

Mr. GRÉGOIRE: But you agree that the Treasury Board had a right to pass such an order?

Mr. COYNE: I presume so. I do challenge the legality of it.

Mr. GRÉGOIRE: And it was passed in accordance with decision of Parliament. Do you still feel the same responsibility towards the Committee of the House of Commons?

Mr. COYNE: Yes, I do.

Mr. GRÉGOIRE: But the Treasury Board order came after.

Mr. COYNE: The treasury Board order did not absolve me of my responsibility. All it said was that if I exercised my responsibility in a certain way that was not good enough; that it also had to be referred to the Minister of Finance.

Mr. GRÉGOIRE: Yes; so the order of the Treasury Board gave the Bank of Western Canada the right to consent to some loans to the BIF group, provided they had the permission of the Minister of Finance?

Mr. COYNE: No, sir. They put it the other way round. They said that the Bank shall not make such loans except with the permission of the Minister.

Mr. GRÉGOIRE: They could make them if they had the permission.

Mr. COYNE: Insofar as the law was concerned. That is what the Treasury Board order was doing—laying down the law. I am speaking about responsibility.

Mr. MACKASEY: May I ask a supplementary question? Are you happy now that this was stressed in the Treasury Board, in view of the circumstances? Was this not a wise safeguard on the part of the government or Parliament.

Mr. COYNE: I do not question the wisdom or otherwise of it. All I say is that I am not going to use that as the excuse for saying that I will pass the buck to the Minister of Finance.

Mr. MACKASEY: But you may not be there next week.

Mr. COYNE: Quite so.

Mr. MACKASEY: In other words, this is a wise precaution?

Mr. Coyne: It could be.

Mr. GRÉGOIRE: But the fact that this order of the Treasury Board is there does not mean that you are absolved of all responsibility towards the Committee.

Mr. COYNE: I do not think it absolves me of responsibility at all.

Mr. GRÉGOIRE: I am surprised; because I think that if the Treasury Board passed such an order it was because they had the right from Parliament to do it. Nobody in Parliament, not even members of the Committee who were in Parliament, questioned the right of the Treasury Board to pass that.

Mr. COYNE: I have not questioned that. Let us suppose there is a law that says a thing must not be done unless both A and B consent to it. The fact that B has to consent to it does not absolve A of his responsibility.

Mr. GRÉGOIRE: No; but if he consents—

Mr. COYNE: Then he has carried out his responsibility surely.

Mr. GRÉGOIRE: And you had the majority of the Board of Directors.

Mr. LEWIS: He has to make the first decision.

Mr. GRÉGOIRE: Now, in the last paragraph you say:

> —there should be provision that no American bank shall be entitled to hold any shares in a Canadian bank, and certainly not any voting shares.

So that you would agree with the decision of the Minister of Finance that the First National City Bank should not have more than 25 per cent of the Mercantile Bank, and even that it not have a single share in that bank?

Mr. COYNE: No; I am not thinking of that special situation which is very much before Parliament. I am not presuming to speak on that. I am stating a general principle here which was born out of my experience.

Mr. GRÉGOIRE: Yes; but you say:

> —there should be provision that no American bank shall be entitled to hold any shares in a Canadian bank—

Mr. COYNE: Yes; well, I probably made too sweeping a statement; because I did not intend to be saying anything one way or the other about the Mercantile situation.

Mr. GRÉGOIRE: You would not include the Mercantile bank in this?

Mr. COYNE: I would prefer not to say anything about it.

Mr. GRÉGOIRE: You suggest something to the Committee, but now you are not ready to say anything about it?

Mr. COYNE: Yes; well, I am sorry, I would prefer not to make any comment on the special situation which you have before you in relation to the Mercantile Bank.

Mr. GRÉGOIRE: That is all, sir.

The CHAIRMAN: Thank you, Mr. Grégoire. This exchange between yourself and Mr. Coyne may give rise to some interesting speculation because there was some suggestion, either by yourself or by Mr. Coyne, about what you might do if you were ever president of a bank, and so on and so forth. This could lead to some very interesting pictures in the imaginations of those present.

I would now like to recognize Mr. Latulippe.

Mr. MACKASEY: Mr. Chairman, I would like to raise a point of procedure. Perhaps you could advise me on this. I am not clear about an answer by Mr. Coyne to a question posed by Mr. McLean. How can I rectify my possible misconception of the answer?

The CHAIRMAN: You may want to seek an opportunity to ask a supplementary question. This leads to another topic that perhaps we might discuss before I

recognize Mr. Latulippe. You may seek an opportunity for a second round of questions. Perhaps we ought to spend a moment or two on that before recognizing Mr. Latulippe on the general issue.

There are at least two other people besides Mr. Latulippe who have indicated that they wish to ask some questions and who have not had an opportunity to do so. In addition to yourself there is at least one other person who has already indicated that he wishes to have a second round of questioning. However, we have another witness, Mr. Stevens, who has not as yet had an opportunity to say anything to us about this particular question we have been looking into today. I think we may want to consider just when and how we are going to proceed.

I raise this at this time because very strongly uppermost in my mind, as I am sure it is in the minds of many other members of the Committee, is the fact that we are under some obligation to the House, and therefore to the Canadian people, to deal with the deposit insurance bill, which was referred to us at the end of last week, and also to complete our clause-by-clause consideration of the Bank Act, especially in view of the fact that I understand the Government is still proposing that the House prorogue on March 10.

In spite of the fact that we may think that we are doing some important work in this committee, we obviously still have to give the House and the Senate some oportunity to consider these two pieces of legislation. I am sure they will want to take some reasonable time for that purpose. Therefore, without making any specific suggestions, I may want to commend to the members of the committee and other members present, a course of restraint in asking further questions of Mr. Coyne, particularly if they cover areas that have already been touched on; and of course, of using the same restraint in questioning Mr. Stevens when his opportunity comes.

Secondly, I think we should give some immediate consideration to the possibility of sitting tomorrow and Thursday and Friday morning although not necessarily on this issue alone; I would not recommend that. By so doing, we will know where we are going, perhaps with a view to beginning our clause-by-clause consideration of the legislation in question at the beginning of next week.

It is my understanding that some of the opposition group particularly wish to take a few days to consider possible amendments before beginning clause-by-clause consideration of the banking legislation. At the moment we are not behind schedule, and that, of course, is why I and the steering committee willingly gave Mr. Coyne and Mr. Stevens the opportunity to appear before us today. At the same time, we have to keep in mind our general obligations.

I would just like to commend to the Committee for consideration, though we do not usually do it, that we sit tomorrow afternoon at 3.45 p.m. with a view to completing our questioning of Mr. Stevens. On Thursday morning we could hear the Minister; firstly, on any further comments he may have with respect to the Bank of Western Canada, and, secondly, to testify before us on the deposit insurance bill.

Mr. MONTEITH: Mr. Chairman, I feel very strongly that we should hear Mr. Stevens as soon as possible. Although Mr. Coyne has said that there is no question about the liquidity of these companies, and so on, I think probably all the publicity that there has been recently will not do them any good. I think we

should, as a consequence, give Mr. Stevens his opportunity on the witness stand just as soon as we possibly can.

Mr. FULTON: Perhaps we could sit an extra hour tonight and get the press straightened away. I am sure we are.

The CHAIRMAN: I certainly would be most willing to so recommend. We have done it on other occasions.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I would like to support what Mr. Monteith said. It may well be that after we hear Mr. Stevens the situation may not be improved, but apart altogether from the dispute that may exist between these two individuals, there are a great many others who have got a very direct financial interest in these particular companies.

We have heard a rather damning one side of the case from Mr. Coyne. I think we should, before business opens tomorrow morning, give Mr. Stevens an opportunity at least to respond so that there can be a more balanced judgment on the part of not only this committee but of the investing public generally.

The CHAIRMAN: Is it your suggestion that we suspend further questioning of Mr. Coyne for the time being and proceed immediately to hearing Mr. Stevens?

Mr. MACDONALD (*Rosedale*): Well, we have only got so much time left Mr. Chairman. That seems to be a statesman-like suggestion on your part.

The CHAIRMAN: With that description of it I will have to stick by it rather strongly, if the Committee is in agreement.

Mr. FULTON: There is just one other thing that I think should be cleared up. I understood Mr. Coyne to say that no part of his resignation from York Trust and those companies had anything to do with any doubts about their liquidity. I think we should have that clear on the record for Mr. Coyne as well.

Mr. COYNE: That was not the phrase used in previous questions, or the actual phrase that I used. I said that I was satisfied that they had a substantial surplus of assets over liabilities, and that their assets were sound.

Mr. MACKASEY: There is one question which has been bothering me. You said that this whole thing was not dishonest. How would you describe it?

The CHAIRMAN: Well, Mr. Mackasey—

Mr. MACKASEY: This is important, before we get to Mr. Stevens.

The CHAIRMAN: I am not saying your question is not relevant or important. However, I interrupted Mr. Latulippe to deal with what I thought was an important matter of procedure. Before considering your supplementary question I think we should reach agreement on what we propose to do.

Mr. GRÉGOIRE: Mr. Chairman, excuse me, when you look at the angle from which Mr. Fulton put it—the question of the liabilities of the companies—there is still a sentence here which is strongly phrased, where Mr. Coyne says:

> —as I no longer have confidence in the management or policies of those companies.

this has not been explained.

The CHAIRMAN: Mr. Grégoire, in the first place, I think the committee was in agreement with my suggestion that we were straying somewhat from our terms

of reference in trying to go into detail on the operations and management of the BIF group.

Secondly, I suppose Mr. Coyne would suggest that his first paragraph is governed, or limited to a large degree, by the further explanations in the balance of the statement.

Have I interpreted your analysis of your statement of your previous remarks with some success?

Mr. COYNE: I do not know that you ought always to be interpreting my remarks. I would rather that my remarks stood on their own language, Mr. Chairman, with all respect.

The CHAIRMAN: Well, that is fair enough. Of course, we do not have facilities to have the transcript of what you say before us as you are saying it.

Mr. GILBERT: Mr. Chairman, I would suggest that we stand Mr. Coyne down, subject to recall after Mr. Stevens has given his evidence, and that we sit tonight until 11.00 p.m.

The CHAIRMAN: I presume that Mr. Latulippe and Mr. Basford and our other colleagues would—

(*Translation*)

I would like to explain to Mr. Latulippe, that, to be fair to our witnesses, and particularly to Mr. Stevens, it might be advisable to stop our questioning of Mr. Coyne for the time being and give Mr. Stevens the opportunity to make a statement right now so that the Committee and the public might have a better idea of the whole problem.

Mr. LATULIPPE: Is Mr. Coyne to return tomorrow?

The CHAIRMAN: Maybe not tomorrow, but on another day as soon as the Committee will have decided. You will then have an opportunity to ask your questions, followed by Mr. Basford and Mr. Aiken. There are also others who have not had an opportunity to start their questioning.

(*English*)

Mr. BASFORD: Mr. Chairman, my questions related only to determining what Mr. Fulton has just determined, that the assets of York Trust exceeded its liabilities, so I am quite in favour of standing Mr. Coyne.

The CHAIRMAN: I gather that the consensus of the Committee is that we excuse Mr. Coyne for the time being, subject to recall, and that we invite Mr. Stevens to make a presentation to us at this time.

Thank you, Mr. Coyne.

Mr. MORE: Mr. Chairman, are we deciding now that we are going to sit until 11.00 p.m.?

The CHAIRMAN: Well let us go to 10.30 p.m. and see how we are progressing, we can then decide about continuing until 11.00 p.m.

Mr. Stevens, perhaps you could move over. It will be easier for the Committee if you are in the centre.

Mr. Stevens, you may begin.

Mr. Sinclair Stevens (*Chairman of The Bank of Western Canada*): Thank you, Mr. Chairman. I particularly appreciate that the Committee has allowed me this opportunity, before the evening has run on any longer, to have an opportunity to speak to you concerning what we regard as unbelievably serious allegations which have been thrown against our group, namely the BIF-Wellington group of companies.

I first heard of these allegations when press reporters telephoned me in Toronto. I was startled beyond belief to hear the tone of the statements which were attributed to Mr. Coyne at that time.

Now, my position is somewhat different, perhaps, from that of Mr. Coyne, in this respect, that, on hearing these allegations, our immediate reaction was one of tremendous concern for the shareholders in our companies, and for the depositors and the other people who are connected with them, including the employees, who, we felt, had been put in a position that was totally unfair and uncalled for.

We have had many meetings of our boards and of our executives to discuss the tone of the allegations that Mr. Coyne has levelled against us. As Mr. Sharp mentioned in the House, I personally contacted Mr. Sharp, and prior to actually reaching him by telephone I sent a telegram stating:

> I am sorry I missed speaking with you at the Park Plaza yesterday, . . .

He was in Toronto over the weekend,

> . . . and I was unable to contact you by telephone this morning. But I wish to assure you that my associates and myself are more than willing to meet with you personally or to appear before any committee or other group that you may feel desirable to clarify or contradict statements which are attributed to Mr. Coyne in the press.

Now, I would emphasize that our first response was one of immediately coming to Ottawa and trying to clear this issue which we feel was totally uncalled for. We have indicated that at no time did we object if Mr. Coyne saw fit to resign from our boards, such as Wellington or BIF and, in fact he resigned from various boards—not only BIF boards—over the past months for his own personal reasons. I am referring to boards, such as the Timed Investment Fund, the Alberta Fidelity Trust, the Lambton Loan and Investment, and the International Savings. On all occasions his resignations did not result in press releases.

As far as we are concerned the serious aspect of Mr. Coyne's action has not been his resignation from the board. I think if he personally felt after being out-voted unanimously on those boards on issues which he had argued against, that he wished to resign; that, of course, was his privilege. But we were tremendously surprised to hear that he had gone to the press and made a statement in the form he did concerning this subject.

We were particularly surprised—and I would emphasize this—that this was done and his resignation tendered immediately following a meeting—there was no indication of a resignation during the meeting itself. But it was a joint BIF-Wellington directors meeting at which Mr. Bell, to whom Mr. Coyne has referred today, said to the chairman, who was Mr. Coyne, that in his opinion it

was unrealistic to assume that the BIF group having something around $6 million to be invested in the Bank of Western Canada, would not insist upon having an important say in the policy decisions in relation to the operation of the Bank.

Mr. Bell went on to say, however, that he wanted the chairman—that is, Mr. Coyne—to understand clearly that in making this statement it was to be understood there was no intention of the BIF group trying to obtain any banking accommodation from the Bank of western Canada in the foreseeable future.

Now, this was the February 1 meeting at which the banking resolutions which Mr. Coyne has referred to, were dealt with and at which Mr. Coyne cast the only negative vote against those resolutions. I am pointing out that it was clearly stated at this meeting that our group had no intention of borrowing or seeking banking accommodation from the Bank of Western Canada. Incidentally, there was no dissent at the meeting at all. In other words, there was no qualification of that statement.

We feel that the statements made by Mr. Coyne—and I certainly feel that most of you will agree having read the press—have caused as even the New York Times says:

> "The Canadian financial community has been rocked over the weekend by the allegations of Mr. Coyne."

I think this is terribly unfortunate. I think it is unfortunate for the reasons I have given in relation to the BIF company, to the Wellington company and to our group in total.

During our discussions in Toronto, and realizing the possible gravity and serious consequences that might arise from Mr. Coyne's statement, I entered into a voting trust agreement with respect to the common shares that I hold in British International Finance (Canada) Limited. The agreement, if you like,—this is my signed statement,...

Mr. MACKASEY: What is the date of it?

Mr. STEVENS: Today. The agreement is signed by myself and it reads: I wish to advise that I will transfer the voting rights to all of the common shares of British International Finance (Canada) Limited, which I personally control, in favour of an operating committee to be composed of five members, three of whom are to be Don Ross, who is our principal underwriter associated with Ross Knowles & Co. Limited; John Deacon, the Chairman of the Toronto Stock Exchange; George Dickson, a director on one of our companies and Executive Vice-President of Canada Packers—if they accept, and I understand they will accept—and two other members to be mutually agreed upon. Now, this action has been taken in order to try to minimize whatever impression is being created through the press reports and allegations that have been thrown out concerning the competence of the management of the BIF group.

I say this in two senses: First of all, I personally seem to be singled out for the brunt of the allegations and, in the second place, I believe some suggestion was raised in the House of Commons concerning my voting control in the BIF group of companies. So, I am simply mentioning to the Committee that we feel this is of a sufficiently serious nature that at all costs we have to minimize the possible effect of this concerning our entire group.

Having said that, I would like to emphasize that we feel Mr. Coyne's statements are totally uncalled for and that whatever personal feelings he may have concerning our dealings with the Bank of Western Canada in no sense could justify the type of attitude that he has taken and the press release—especially the form and terms of the press release—which as I have mentioned, was released totally without our knowledge. The first I heard that there had even been a statement was when Dow Jones phoned me in Toronto and said that they understood Mr. Coyne had resigned from two of our boards.

I say this, particularly bearing in mind, as most of you gentlemen probably have already done, some of the comments that have been made by Mr. Coyne before this Committee or the Senate Committee. I find it startling to sit at the same Committee table today—February 7—and hear Mr. Coyne state what he has stated, and yet, on March 3rd, 1966, before this very Committee he said:

> I am associated with them (meaning the BIF group) because they are competent, sincere people who are able to get things done. I do not think you will get banks established in any other way than by having some nucleus group who have to be originators, the controllers, and the organizers, and who will put a lot of time into it in the first instance.
>
> For ordinary commercial purposes, someone has to organize a company and someone has to control it in the early stages; and every other bank I know of was started in that way.

Now that, gentlemen, was March 3 of last year.

I can mention many other references during the hearing of a similar nature, where Mr. Coyne was indicating why he felt it was advantageous to have our group aid in the sponsorship of the bill incorporating the Bank of Western Canada.

I know there is an earlier quote, for example, as far back as May 6, 1964, when Mr. Coyne said:

> I thought that there was real value to our bank, to our community and to the interests of Canada in making sure that a sufficient volume of stock was closely held in strong hands of people experienced in the financial world, who had made a success of their own businesses, and who were strongly pro-Canadian.

Now, believe me, there is absolutely no change in our position, and that statement could be made today as easily as it was made in May, 1964. Mr. Chairman, I do not think, that I should go through all these quotations, but I would like to stress that I feel there has been a tremendous change in Mr. Coyne's thinking with respect to our group. I feel that for whatever personal feelings he may have, I am sorry. But, on the other hand, I feel that it is, perhaps, rash to have made press releases in the form that have been made and to have stirred up the controversy which has ensued as a result of Mr. Coyne's statements over the past few days.

I now mention in a more general tone that the Bank of Western Canada—and, perhaps, you will recall that some of Mr. Coyne's earlier testimony confirmed this—was, in fact, the idea of the BIF group. The original press release concerning the concept of the Bank of Western Canada was issued on December 18, 1963. We stated in part in this press release that:

> to sponsor the new bank as original shareholders, a number of Winnipeg and other western Canadian businessmen are joining with a Toronto group, chiefly those who have been associated with the York Trust and Savings Corporation and Wellington Financial Corporation Limited. All interested parties are Canadians, and no foreign or non-resident participation of any kind is involved.

That was true, and it is still true. No foreign or non-resident participation of any kind is involved in the Bank of Western Canada.

> The Toronto participants are expected to provide organizing facilities and experience in the operation of deposit receiving and investing institutions in the financial field generally.

That Toronto group, of course, being the BIF group.

> It is intended, however, that western Canadians will have an opportunity to acquire a majority of the shares and provide a majority of the directors.

Both things were done. As you will recall, shares were widely distributed throughout western Canada. As far as the directors are concerned, we always felt that two-thirds of the directors should come from western Canada and one-third from our group. At the present time, as has been stated, eleven of the directors are resident in western Canada and six are resident in Toronto.

I believe that Mr. Coyne's statements have touched to quite an extent on the fact that he feels that we have not lived up to our commitment to this Committee or to the Senate Committee with respect to two, or possibly three, different points. One point is the question that he feels that we have—I believe his wording is: "attempted to borrow from the Bank of Western Canada for the purposes of our companies." Our position in this respect is that we have not, in our opinion, attempted to borrow from the Bank of Western Canada. As suggested by certain members of the Committee there has been discussion concerning this subject, both in Committee and at the December 16 meeting to which Mr. Coyne refers. But I should, perhaps, if I may have your indulgence, go into this subject in some depth because I feel it is important that it be clarified so there will be no misunderstandings.

First, I will mention that in referring to Mr. Coyne's quotations from the various Committee hearings touching on this subject, I draw your attention to the fact that in virtually every quotation reference is made to the fact that our group expects to maintain satisfactory lines of credit with their existing banks. For example, the following is stated in the March 18 quotation which Mr. Coyne has distributed to you:

> —we spoke to each of the existing banks with which we deal and gave and received assurances from them that in the event we received a charter, our group's existing banking arrangements would be maintained.

There are similar references both in Mr. Coyne's statements and in mine in most of these instances where we referred to the subject, that BIF group companies would not look to the Bank of Western Canada as their banker. In this connection, too, I point out that in my submission to the Senate I drew attention to the fact that we had certain fears concerning what repercussions we might feel as a group upon venturing into the position of asking for a charter in Canada for a

new bank. It was the first time in more than 40 years that a Canadian group had got together and proposed such a venture. In that submission I made this comment which if I may read it, states:

> In summary then we have no grievance with any of the existing banks in Canada. In fact, we have excellent banking arrangements with most of these banks with respect to the various companies in our group. We feel that our Canadian banks are providing an excellent service to the people of Canada, but we also feel that there is room for one more bank in Canada and more particularly, one having its head office in the centre of that vast area stretching from Bay Street to the Pacific Ocean.
>
> Before making our intentions known with respect to our proposed bank, our group was most hesitant and cautious as to the outcome or repercussions which might result when our intentions were announced. In spite of these feelings, we finally determined to attempt to do what we had been assured was impossible, namely, to obtain a charter for a bank in Canada.

Again, at the same hearing, I believe, Mr. Coyne stated:

> At this point I should like to state—without qualification that we do not intend to use the funds of this bank to make loans to other institutions, such as York Trust, Wellington Financial, British International Finance,—

And he mentioned some other companies—

> —with which some of the organizers of this bank are connected.
>
> These companies all have established banking connections which they expect to maintain—

And I would emphasize "expect to maintain"—

> —and in any case the size of loan that could be made available by the Bank of Western Canada would be of no interest to them.

Then the comment goes on:

> —Similarly as regards the financial institutions in Western Canada with which we are connected—

—namely certain of the trust companies—

> —in their case, they will no doubt do some of their regular banking business with the bank, but will not look to it as a source of funds to be used in their own operations.

Now, with that background and without giving you repetitive quotations, all of which, I suggest, have the same tone, I would mention that the December 16 meeting referred to by Mr. Coyne was, in fact, a two-day meeting. I believe we began on Friday and ran over until Saturday. In fact, we had two full days of discussion among the directors, all of whom, incidentally, were virtually new to the bank and to the concept and the thinking that had gone on prior to that time with respect to the Bank of Western Canada. In the morning of the Saturday session I spent something like 2½ hours explaining to the board the original concept of the bank; the fact that our group had promoted the idea; that we had endeavoured to secure partners in western Canada who would share in the ownership of the bank; the fact that Mr. Coyne had approached certain individuals in the Winnipeg area who he expected would participate with us in the

bank but this did not materialize; the fact that we, after making the press release that I have mentioned, found that there was a ground swell of enthusiasm for the bank which resulted in our being able to raise the funds which were raised for this bank. I related these facts to the directors in order that they would be acquainted with the general background surrounding the formation of the Bank of Western Canada. I mentioned the concepts that we had in mind and pointed out that in our mind—and I read from the minutes of that directors' meeting:

> Mr. Stevens, the Chairman, then advised the Directors that he would like to briefly summarize the history of the incorporation of the Bank and comment upon certain of the effect and results that had been occasioned by the incorporation of the Bank. He advised that in his opinion the basic objectives of the bank should be as follows:
>
> 1. The bank should be a sound bank.
>
> 2. That the bank should run on a profitable basis with a minimum 10 per cent per annum return on capital as a target;

This would be slightly better, or quite a bit better, I guess, Mr. Paton, then the existing Canadian bank rates.

> 3. The bank should be aggressive in fields not fully covered or serviced by the present chartered banks;
>
> 4. The bank should be a western-oriented Bank so long as it is run on a sound, profitable and aggressive basis.

Now, I would emphasize that at no time had we argued against the idea of the bank being a truly western institution. This was our original concept; it was our thinking from the beginning, as I have mentioned in the previous comments. Now, during this discussion I went at some length into the actual credit position of certain of our companies during the period that the bank had been under consideration. On touching on these points, I would mention that I do not mean to say that these lines of credit or loans to which I refer diminished or declined only because our group was proposing to form a new bank in Canada. In other words, I want to make it clear that I am not suggesting this is the only reason; it could be for other reasons. I do state though, because I have first-hand knowledge, that it was a definite factor in the declining credit facilities which our group experienced during the period to which I am referring.

I have been told by certain bankers that their files have been labelled to indicate we are now a banking institution and that loan accommodation we had received previously was subsequently labelled "pre-bank facility". I asked the chap when he mentioned this to me: "What do you mean by 'pre-bank'?" He said the feeling was that we would use the facility of the bank only until we had our own bank incorporated. I stated that this, of course, was untrue. The chap I was talking to agreed, but said it was an attitude that was growing within his bank and something he felt we should be cognizant of; we could not expect the type of accommodation from that bank that we have had in earlier years.

In making these statements I would mention that our credit facility at one time, for example, had been on the basis of $300,000 worth of capital. We were able to secure a line of credit of $900,000. For example, in the 1964 period our credits from Canadian chartered banks ran as high as $5 million within our group. During the 1965 period the credits went down to $1.9. They went up on a temporary six-month deal—which, incidentally, cost us 8 per cent—to $13,900,-

000. During 1966 these lines have fallen from $2 million until, at the present time, I believe, we are borrowing less than $150,000 from our bankers in Canada and that $150,000 is in the Wellington Financial Corporation which has assets of something over $10 million.

I mention this because it was part of the background that I related to the directors of the Bank of Western Canada at the Saturday morning meeting. Our group feel that to some extent the Bank of Western Canada has caused us to lose considerable in the way of lines of credit and other facilities with existing Canadian banks. During this same period, however, we have been able to secure lines of credit and loans from various American banks and some European banks. So, I would suggest that it is not a question of credit worthiness; there seem to be other reasons which could have had a bearing.

Now, I stress again, in relation to Mr. Coyne's comments concerning the credit facility to which he referred on the February 1 meeting of Wellington Financial, that these credit facilities have been utilized by our group for some time, and the specific credit to which he is referring was a new line of credit we had asked for and which had been granted. But the bank concerned had already given us considerable credit in the past and with absolutely no reference to the Bank of Western Canada. At one time the Bank of Western Canada would not even have been incorporated when this bank were affording us lines of credit and loans. I am referring to the specific bank that Mr. Coyne is referring to. I would also like to state that several American banks and foreign banks have extended us lines of credit during this period.

In pointing this out to the directors of the Bank of Western Canada, I stated that it would only be fair to tell them, as Chairman of the Board, that certain of the directors on the bank had informed me they had been notified by their respective banks that upon being appointed to our board their lines of credit were in jeopardy; that in certain cases they had been discontinued or lowered or, at least, a request had been made that if it could be refinanced the bank would be much happier. In one case a director was told that a legal opinion had been sought of whether, in fact, the bank that he was dealing with could lend to him on his personal account, now that he was a director of another bank. The legal opinion, of course, confimed that there was nothing wrong with it. But the manager indicated by innuendo, at least in the mind of this gentlemen, that they would be very pleased if he would shift his account in view of the fact he had joined the board of the Bank of Western Canada.

Now, I felt an obligation to explain to the directors of the Bank of Western Canada that this type of situation existed. I then related it to our group and pointed out the diminishing lines of credit and loans which our group had experienced during this period. This, then, brought me to what I regarded at the time as a clarification of the Treasury Board order touching on this subject of our group borrowing from the Bank of Western Canada.

As has been indicated, section (f) of the Treasury Board order states:

—that the bank—

—meaning the Bank of Western Canada—

—during the period in which the preferred subscribers hold in the aggregate more than ten per cent of the shares of the Bank issued and

> outstanding, shall not, directly or indirectly, except with the prior approval of the Minister of Finance,—

and in very general terms—really any transaction touching on the Bank of Western Canada of a loan, or of a guarantee nature, or the sale of assets or anything like this.

In reviewing this I pointed out that we, in our group, possibly had been put in the worst of all possible worlds as it was clear that we could not deal—and we understood we could not deal—with the Bank of Western Canada; existing banks, for their own good reasons, were not extending us the lines of credit that we had once enjoyed; and that we had little recourse but to go to American or other foreign banks for credit facilities. I mentioned, however, that I felt, as a group and, speaking especially as president of the British International Group, that I had an obligation to go to the Minister of Finance and ask for a clarification of what was meant by the words "except with the prior approval of the Minister of Finance." This was discussed at the meeting and the minutes that actually record this state:

> He reviewed—

meaning myself—

> He reviewed the provisions of the Treasury Board order given at the time that the Bank was authorized to accept subscriptions from B.I.F. group in excess of 10 per cent of the issued capital of the bank.
>
> After discussion, the Secretary was directed to record that Mr. Stevens proposed in his capacity as President of the British International Finance (Canada) Limited to ask the Minister of Finance for clarification of the terms of the Treasury Board order in relation to whether and in what circumstances the Minister of Finance might be prepared to approve transactions betwen the Bank and the B.I.F. group of companies.

Mr. MACKASEY: The western bank?

Mr. STEVENS: Yes, the western bank. Now, that is the only reference to this subject in the minutes. The discussions which Mr. Coyne has referred to were, as suggested by Mr. Wahn, I believe, purely exploratory in nature. It was pointed out, in similar situations in the United States, the requirement is that by law a bank cannot lend to any customer, more than 10 per cent of paid up capital and reserve. It was suggested that the Minister, if he were approached, might say that this would be a reasonable guideline with respect to any dealings with our group.

Mr. LEWIS: Who suggested that?

Mr. STEVENS: I do not know whether I suggested it or somebody else, but during the meeting it came up for discussion. If you like, I will take the blame for suggesting it. I am not too sure, but I know it was discussed at the meeting. Some of the directors felt that would be too high a limit. Others felt it could only be put on a specific deal basis; in other words, if there were a specific transaction to be considered—the sale of assets or something like that—this, perhaps, would be the only basis on which the Minister would give such consent.

But, I would emphasize that the tone of this meeting, in my view, was simply one of clarification in explaining the position with respect to our group in

the formation of the bank, our credit facilities and future position that we might find ourselves in, including the directors of the Bank of Western Canada.

During this discussion, I also touched on the fact that Fort Garry Trust in Winnipeg, for example, clears with one of our competing banks. Now, as you know, Mr. Chairman, before this Committee, on behalf of 12 trust companies, the point was raised that we feel somewhat precarious in the trust company field with respect to this clearing arrangement through chartered banks, in that we compete with chartered banks—I am speaking in the trust field—and the only way we can clear our cheques is through those chartered banks. Now, in Winnipeg, Fort Garry Trust does clear through one of the banks. It is a very profitable account; we have no loan accommodation; but, technically speaking on the strict wording of the Treasury Board order, I do not think the Fort Garry Trust account should be shifted to the Bank of Western Canada without consent of the Minister of Finance.

This, I would point out, is something that was certainly contemplated by Mr. Coyne in the earlier quotation that I mentioned, in that the trust companies in western Canada might quite conceivably deal with the Bank of Western Canada. So, at the board meeting on December 16 I was simply clarifying the position in relation to the Treasury Board order and, specifically, item (f). There was definitely no application made to the board of any formal or informal nature; there were no specific funds requested. In fact, as Mr. Coyne indicated, the point was even raised for clarification that if we were really applying for a loan we would have to absent ourselves from the meeting which is the requirement under the Bank Act. The statement certainly was made by myself that we were not applying for a loan. We were simply trying to familiarize the directors with the situation and to advise them that I, as president of B.I.F., may feel that I have to go to the Minister of Finance and at least ask for clarification on the point.

Mr. MACKASEY: You are talking about directors. Do you mean the directors of the western bank or the B.I.F. group?

Mr. STEVENS: Directors of the western bank.

Now, during the same meeting we referred to the fact—and this was with more specific reference to the position of directors on the Bank of Western Canada—that the Porter commission report brought out that about 30 per cent of the banks' authorized lines of credit of $100,000 or more at the end of 1962 were to directors, the firms or corporations of which they were officers or directors, or were guaranteed by them. However, this is a reflection of the wide business interest of the 270 directors of our existing chartered banks. In other words, 30 per cent of the lines of credit of over $100,000 that were expended by Canadian chartered banks at the end of 1962 were, in fact, to directors or to firms in which directors of the bank were associated. If that is still in effect—and I have no reason to believe it to be otherwise—it means that today each director of a Canadian chartered bank, if he has his proper allotment, should have $10 million of line of credit available for himself or for a company in which he is associated.

We brought out this point to indicate that we, in the Bank of Western Canada, cannot allow ourselves to get into a too isolated or limited position, or we would find it difficult to compete effectively and to win directors on to the

board of the Bank of Western Canada in view of the position that directors are relative to the other existing banks. So, just to summarize on this question of our borrowing from the Bank of Western Canada, I would like to stress that what Mr. Coyne is referring to are discussions concerning whether loans could or should be made; the effect of the Treasury Board ruling; but at no time was any actual application made or any pressure brought to bear on the board in the sense of saying that we require a certain loan and expect the board to automatically fall in line, or anything whatsoever along that line. And as I have stated, at the February 1 meeting—later that evening Mr. Coyne resigned—it was specifically stated that our group did not intend to apply to the Bank of Western Canada for credit facilities in the foreseeable future.

This, then, brings me to the question of the bank accommodation that we secured in the United States and which Mr. Coyne has taken exception to. This accommodation was given to us as the result of a letter which was addressed to the bank and dated January 19, 1967 which I would like to read to the Committee, if I may Mr. Chairman. It states:

> Gentlemen:
>
> You already have corporate documentation from British International Finance (Canada) Ltd. and Wellington Financial Corporation Limited.
>
> In connection with the above, please credit the respective accounts with the amounts of the enclosed checks.

There were two nominal cheques put in, one of $5,000 and one of $10,000, one to be credited to the B.I.F. account and one to the Wellington account.

> In regard to our discussions, we hereby request you to establish a loan line for up to $2,500,000 for ourselves. Of this amount we visualize the use of $1,500,000 in the immediate future. We may call on the balance of $1,000,000 later on, and this second amount of $1,000,000 will, of course, be subject to negotiation at that time. We are therefore discussing for the present a total of $1,500,000.
>
> Upon your advice, Wellington Overseas Corporation (which is our New York corporation) will issue its notes to yourselves which notes will be guaranteed for payment by the aforementioned organizations, British International Finance (Canada) Limited and Wellington Financial Corp. Limited and endorsed jointly and severally.
>
> The maturity should be for one year.
>
> We are enclosing herewith financial statements of British International Finance (Canada) Limited and Wellington Financial Corporation Limited which, together those you already have for Wellington Overseas Corporation should complete your files.
>
> Mr. Sinclair Stevens, President of both British International Finance (Canada) Limited and Wellington Financial Corporation Limited advises the statements of these organizations, as at the close of 1966, will be in line with the enclosed reports and will not have any significant changes, excepting that the net worth of these companies will be substantially higher.

The reference that we are making there is to the fact that partly as a result of the mergers which have gone in our group and the actual consummation of the

Bank of Western Canada, the net worth of the Wellington—B.I.F. group is up about $5 million or $6 million since the end of 1965.

We thank you, very much for your consideration and for your co-operation.

With best regards, I am,

(Signed)

Sincerely yours

Wm. John Mindlin.
President.

That was the letter in which we requested the credit facility from the New York Bank. They approved the credit and during the discussions the point was raised, as it had been raised from time to time, that this bank would be particularly interested in working with our B.I.F. group in its general activities. By that they meant they liked the international activity we were in, including the fact that we have an office in London, England; we have activity in the Bahamas; we are in the mutual fund business which this bank hopes to get into and they like the association with the Canadian group.

Mr. GRÉGOIRE: What is the name of this bank?

Mr. STEVENS: Mr. Chairman, I would ask you for a ruling on that point. I have no objections to giving the name. My only reservation is that I feel the nature of this discussion is such that the fewer names that get pulled in the better. As I mentioned, the *New York Times* is already running stories on this controversy, and I am fearful that banking facilities which we have in the United States, which we enjoy and continue to enjoy, may feel some embarrassment if their names get drawn into the discussions.

The CHAIRMAN: I think the best approach to take would be for me to reserve any decision on this point at this time, and to invite comments from the Committee at a later stage if the discussion arises again. The reason I say that we should not get into it at this time is to give Mr. Stevens an opportunity to complete his initial statement.

Mr. GRÉGOIRE: Mr. Chairman, there is only one thing I wanted to know. Was it the First National City Bank?

Mr. STEVENS: No. I should have mentioned that it is definitely not the first National City Bank of New York.

The CHAIRMAN: I will reserve a decision on this point until after you have completed your statement. I would invite you to proceed.

Mr. STEVENS: The other point that I would mention too, is that the letter I have referred to is in reference to only one New York bank. We deal with several New York banks and also with banks in the Midwest and in the far west of the United States. Again, I feel that introducing their names may cause them some embarrassment.

Mr. MORE (*Regina City*): I have a supplementary question. This letter refers to the line of credit that was referred to by Mr. Coyne.

Mr. STEVENS: That is right. The point that Mr. Coyne refers to, as I understand it, is that during the oral discussions—and I would emphasize this—between Mr. Mindlin, our New York representative, and the bank concerned, the point was raised that we would be willing to give a first refusal on a block of BIF shares or Bank of Western shares up to the statutory limit of 10 per cent in the event that such shares were to be sold to a non-resident. It was nothing more, in effect, than a gentlemen's agreement. Now, when I say that, in banking language, it would be a firm agreement in the sense that that bank would be very disappointed, to say the least, if the shares were sold to another non-resident without giving them the opportunity to purchase them. It was a first refusal basis on a 10 per cent block of the Bank of Western Canada. It was not in the written request for the loan but was simply something that was referred to in oral discussions during the consideration of the loan which was eventually granted to our group. As far as I know, the facility is still available along with the other New York facilities which I have referred to.

When this matter was drawn up and referred to at the Wellington-B.I.F. meeting on February 1st, Mr. Coyne was quite adamant in his opposition to us entering into the line of credit or the loan arrangement as described.

Mr. LEWIS: When you say "as described", does that include the loan of credit and the gentlemen's agreement?

Mr. STEVENS: Yes. During the meeting, as Mr. Coyne has mentioned, a resolution was moved and passed unanimously with the exception of Mr. Coyne's dissenting vote, that we accept the loan arrangement in principle but that we go to the New York bank and clarify the understanding with respect to the first-refusal arrangement and any other misunderstandings that there may be concerning the affairs of any of our companies.

Mr. MACKASEY: What was the date of all this, Mr. Stevens?

Mr. STEVENS: February the first.

Mr. MACKASEY: And this was a meeting of the B.I.F. group.

Mr. STEVENS: It was a joint meeting of the B.I.F. board and the Wellington board.

Mr. MACKASEY: Not the bank?

Mr. STEVENS: No, because it was a loan to be jointly and severally guaranteed by those two companies. So, in short, we felt that while we had agreed in principle to the loan arrangement, any misunderstandings that might exist—and we were simply activated by the type of attitude that Mr. Coyne has indicated—would be clarified if we met with that bank and made sure that there was no misunderstanding concerning the first-refusal arrangement or in respect to anything else concerning a financial nature in our own organization.

As it has resulted, the meeting was not proceeded with because subsequently we received Mr. Coyne's resignation, but the bank in question is having its two senior representatives visit with us in Toronto this week, at our request, in order to go over this matter fully and make sure that, in fact, there is no misunderstanding of any nature whatsoever.

In touching on this matter, I would have to give you some background concerning the American bank situation or the foreign bank situation generally.

During our discussions in the Bank of Western Canada the point has often been made, and I think it is generally agreed, that we can co-operate and get tremendous assistance from certain American banks, especially those in the midwest and the far western part of the United States. You have situations where you have American bank holding companies which control perhaps 50 or 70 banks under their jurisdiction. These banks have very similar problems to the problems that the Bank of Western Canada will experience in its opening period. For example, I am thinking of two bank holding company institutions in the Minneapolis area. They control banks in the seven states immediately south of Winnipeg, and we felt that the knowledge, the know-how and the assistance of those banks in getting our bank off and running in Winnipeg would be very beneficial. Now I should mention to you that we have already been dealing through our New York office with one of those bank holding companies and it has been an extremely good, profitable relationship on both sides. I do not feel that there has been any serious opposition to the suggestion of having this co-operation with the American banks. I believe that in the development of the Bank of Western Canada a great deal of facility can be acquired through the participation loan process working with this type of American bank. When I say this, I mention it advisedly because these banks literally have approached us and said that they would like to be able to work with Canadian banks in a participation loan fashion and extend credit to customers that they feel are credit worthy in the Canadian field.

For example, only a week ago I had a visit in Toronto from an official of one of the Buffalo banks. He said he had a customer in Toronto whom he felt was creditworthy. They were prepared to take up to 75 per cent of his loan accommodation. They were unable to get the two Toronto banks that they had approached to share the deal with them and that he had come in, to use his words, "in a spirit of complete frustration" in that they would like to accommodate their customer but they could not find a Canadian bank who would work with them and he wondered would we be interested, if we were active in Winnipeg, in taking such a participation loan if a similar situation arose there. I said my understanding—certainly speaking personally—was that we certainly would be interested in working with such a participation deal.

In fact, during the formative period of our bank we had representatives go down into three areas of the United States, the eastern states, the midwestern states, and the California western states and visit a total of about ten American banks to receive information, co-operation and ideas from these banks concerning how they could work with the Bank of Western Canada in facilitating our activity in the Canadian west. We got a tremendous response from all of these banks. I am talking here about BIF personnel. In the case of the Bank of Western Canada itself, I know, and presumably to Mr. Coyne's knowledge, that the general manager went into the Chicago area and similarly visited a bank in Chicago and worked out a tentative arrangement concerning that bank's participation and association with the Bank of Western Canada in the event that the bank got activated.

Mr. More: With Mr. Coyne's knowledge?

Mr. Stevens: I can presume so because I have a memo from the general manager in which he mentions that he has visited with this bank. He was very

pleased with his reception and that he would like Mr. Coyne and myself to visit with the President of the bank and take the matter on further.

I am mentioning this as background to the fact that we in the BIF group do not feel that if we should see fit to sell a block of the Bank of Western Canada to an American banking concern that objection should be taken to it in the sense that Mr. Coyne has taken objection. We feel that such a share ownership would be probably a way to weld a good link with an American banking concern. The bank that we have in mind is a large bank; it has assets of well over a billion dollars; they have know-how and they have indicated every interest in co-operating, but there is absolutely no suggestion on any part of these American banks that I am referring to that they would take control or in any way interfere with the management of the Bank of Western Canada. I would also emphasize that many of these banks are already dealing with our group and that they have dealt with our group prior to the Bank of Western Canada even being chartered. So I do not feel that it can be assumed that the only reason that they deal with our group is the Bank of Western Canada being in the background.

The CHAIRMAN: What size block are you referring o?

Mr. STEVENS: Well, the limit would be 10 per cent. The 10 per cent factor is the limit in our existing Bank Act. The Bank of Western Canada is limited to a 10 per cent portion. The revised act would be up to 25 per cent, I believe.

Mr. MACKASEY: Mr. Stevens, for a clarification, is that not precisely what Mr. Coyne said in his statement?

Mr. STEVENS: I beg your pardon.

Mr. MACKASEY: Is this not precisely what Mr Coyne said in his statement?

Mr. STEVENS: I am sorry.

Mr. MACKASEY: What you have just described, the option of 10 per cent of the shares to an American, is precisely what Mr. Coyne is accusing you of.

Mr. STEVENS: I think it is a question of degree. We simply say that during oral discussions a first refusal was indicated in the event we wished to sell to a non-resident. I think option is a stronger word, and I do not want to toy with words, but I am simply saying that the important thing, as far as we were concerned, was the credit facility and that the share ownership is something that we feel, if it was consummated, should not be objected to; but on the other hand it was not the key point in the credit facility.

The question has also been raised by Mr. Coyne concerning the $1.5 million or $1,450,000 which has not been paid into the Bank of Western Canada. On this point, I must admit matters get very confused.

The CHAIRMAN: Order, please.

Mr. STEVENS: —because, as Mr. Coyne has stated, there is still an unpaid portion of our subscription in the amount of $1,450,000. This amount, in my opinion, will be paid. In fact, at the date of the meeting in which the matter was being discussed the funds were available.

Mr. MONTEITH: That was on February 1.

Mr. STEVENS: No; the directors' meeting on January 20.

As Mr. Coyne has mentioned, early on the agenda of that meeting there was reference to payment in of unpaid capital. That was moved to later in the meeting and, as he has said, it came up at the final part of the meeting. During this meeting a fairly lively discussion ensued on this point, in that Mr. Coyne felt that my shifting of the question of the unpaid shares to later on the agenda indicated that perhaps we wanted to hear policy matters discussed first, or in some way we were, in effect, holding a lever over the directors to first of all decide policy before we would put the $1,450,000 in. I said that I did not feel that that was certainly our thinking, but at the same time we were concerned as to what was to be the future policy and method of operation of the Bank of Western Canada.

Mr. MACKASEY: What date were you worrying about policy?

Mr. STEVENS: We had been worrying ever since July 15 when we received our charter. I am now up to the January 20 meeting, at which time certain of the directors felt—and I hesitate to call them eastern directors because I feel that perhaps this east-west question is overdone—as Mr. Bell stated at the Wellington meeting on February 1 to which I referred, that, having the size of investment in the bank that we had, we should have an important say in the policy decisions in relation to the operation of the bank. In actual fact, we visited Winnipeg one day early, hoping to have an opportunity to discuss at some length the policy with respect to the Bank of Western Canada. We felt that we could not get down to the specifics that we would have liked to concerning the number of branches to be opened and when they might be opened—the hard core policy matters as to how the bank in fact would operate. In saying this, let there be no doubt in anyone's mind: we are not arguing against the idea of a Western Bank, but we want a successful, profitable, effective Western Bank and we think that is the only type of bank that the west deserves and should have. I could refer to resolutions, for example, where we moved that branches be opened in the west at a quicker rate. We would like to be open in Vancouver and places like that, but it is essential to have the policy decided and then action taken.

During this meeting Mr. Coyne outlined his thinking at that date. He stated that the staff of the bank were quite pressed with organizational matters and that they had not been able to arrive at any too definitive decisions, but that he would indicate, as I understood it, his thinking at that time. During the discussion the impression was certainly left, I feel, that one of the chief drawbacks to the future of the Bank of Western Canada was in fact the association with the eastern interests and, in particular, the BIF group. This startled me greatly in that some of the directors—I think there were two in number—said that they felt that this image was such that it was difficult to sell the Western Bank as a western bank. I pointed out, and other directors pointed out, that certainly it had always been known by the originators of the bank that the BIF group would have an important interest in the bank, but they said that they felt some means should be worked out to ensure that this factor could be minimized. I was very startled to hear a suggestion that we should put all our shares in a voting trust and that the voting trust should be administered or run by Winnipeg people or people in the west. This was news to me. Having that amount of money at stake, we felt that to suggest, we give up the voting power on the money and leave policy matters entirely to the directors on the board who, I think in most

instances, had qualifying shares, was expecting a tremendous move on our part and one which would be very imprudent for us to do in respect to our respective companies. It was suggested, perhaps in jesture, that I should move to Winnipeg myself in order to try to give more of a western image. I stated that I had no particular objection to moving, but if I was to move then perhaps I would go further west than Winnipeg. In fact, before this is over I may end up moving west.

However, during the discussion we felt that we were left in the odd position of directors telling us that we in effect were the chief liability in ensuring that the bank would get off to a proper running start in western Canada. We offered at the meeting to sell a substantial portion of our holdings to any western group that wished to purchase it and, in fact, we asked one of the directors specifically to seek out possible purchasers for, say, 10 or 20 per cent. We said this in the sense that we felt that if it would better the future of the Bank of Western Canada, we would have no hesitation in selling say, 10 or 20 or possibly even 30 per cent of our holdings in the Bank of Western Canada to a partner or a group of partners who would be acceptable to us in the sense that they could work properly with us.

Mr. FULTON: You are holding approximately 51 per cent.

Mr. STEVENS: About 50 per cent.

Mr. MACKASEY: Is this the first time it was suggested to you that you put your shares in a voting trust?

Mr. STEVENS: Yes.

Mr. MACKASEY: It was the first time.

Mr. STEVENS: When I say that I do not mean that there was necessarily, to my knowledge, any organized thinking behind it; it was just that a director said: Well, maybe that would be a help to you.

The CHAIRMAN: I do not like to interrupt, Mr. Stevens, but it is now five minutes to eleven and I think we should decide, firstly, whether you are in a position to conclude your remarks shortly. I gather you are dealing with one of the final points that you had in mind with regard to shares subscription. Secondly, there may be one or two questions which members may consider vital with respect to shareholder or depositor confidence in your other institutions that have not already been asked and, for that reason, they might be asked tonight.

Mr. STEVENS: If I may just finish this point, Mr. Chairman, I will not go on any longer with my general discussion.

Mr. BASFORD: Mr. Chairman, I do not know how much longer Mr. Stevens would require to conclude his statement but, if possible, I think he should be allowed to conclude it.

The CHAIRMAN: I am certainly not objecting to it.

Mr. THOMPSON: Mr. Chairman, if you are going to allow any questions it is going to be very difficult to decide who should be allowed to ask questions and what questions should be allowed. I think that we should conclude with Mr. Stevens' statement and leave the questions until tomorrow.

Mr. FULTON: Just as a suggestion, he might like to end up with some further reference to the position of his other companies.

Mr. THOMPSON: Let him complete his statement.

The CHAIRMAN: I was attempting to take into account the energy level of all those present.

Mr. MONTEITH: Perhaps we could leave even short questions for clarification and so on until later.

The CHAIRMAN: Yes. Mr. Stevens, would you proceed.

Mr. STEVENS: We found ourselves in what we regarded as a very odd position. We have 17 men on the board and 11 of them are from western Canada. We feel we did right in this connection. Certain of the 11 members made the suggestions which I indicated and, when we stated that we would be willing to sell a bloc of our shares, one of the directors said: "Well, of course you would sell at market." Well, the market is $12 a share and this would mean that whatever bloc we were selling we would be taking an immediate $3 loss for our effort. I am only indicating the rather startled impression that we were left with at this board meeting to hear that the chief liability in trying to sell the bank in the west was our association, and then to be told that if we were going to sell a bloc of our shares that possibly the price we would be willing to accept would be market. He is certainly going the wrong way in the financial business. On this point—and this takes me back to one of the earlier hearings—Mr. Elderkin was asked by Mr. Horner whether he thought there was anything wrong with a group having 50 per cent in a bank. As stated on page 126 of the hearing on March 3, Mr. Elderkin said:

> ...I think there is room for more banks in Canada.

And then on page 128 Mr. Horner asked Mr. Elderkin:

> Do you feel in the establishment of a new bank...a group...must own a 50 per cent share...

Mr. Elderkin replied:

> Well, I do not know about 50 per cent, but I think it is very essential that you must have a management group...to start off.

Mr. Horner then asked:

> You do not think this is giving that particular group a chance to make a tidy sum...through the sale of shares?

Mr. Elderkin replied:

> They might make a tidy loss.

At that time I think Mr. Elderkin was very accurate in his anticipation in that I am not sure that we could sell our shares certainly at a tidy profit as indicated at that time by Mr. Horner.

In short, with respect to the $1,450,000, we feel that the money will eventually and certainly be paid into the Bank of Western Canada. We do feel, though, that the air must and should be cleared concerning the real future for this bank. Having said that, I would like to emphasize that I think it would be almost a tragedy if the Bank of Western Canada is not proceeded with in the original concept and if it is not allowed to develop as a sound, profitable and

strong bank, serving primarily western Canadians, as we originally indicated was our intention. That intention certainly has not changed as far as we are concerned. We feel that if this matter is left to the board, matters can be reconciled and worked out. We feel that any issues which have been raised have, in our mind, been greatly overstated. There has certainly been no intention on our part to do anything of the nature which has been indicated and, in fact, the reverse, at almost any cost, has been our wish. We have sincerely tried to make sure that this bank gets off to a good start and we still feel that the board can work out the differences which have arisen. We are only sorry that these differences have through the press, been made public because, I would emphasize, in our opinion there has been absolutely nothing done to date which contravenes the act incorporating us, the Treasury Board order or the spirit of any testimony given before this Committee or the Senate Committee in Ottawa.

Mr. Chairman, I have only one other comment to make at this time but perhaps I might have something further to say tomorrow, if that is acceptable.

My other comment—and this is the only comment that I can say with assurance that Mr. Coyne and I have complete agreement on—in that in the *Globe and Mail* or possibly a Toronto *Star* report, Mr. Coyne touched on the fact that he hoped there was no suggestion of insecurity in the companies concerned in our group, especially the trust companies, and that in his opinion the assets of those companies certainly exceeded the liabilities. I would certainly agree with Mr. Coyne on that, and I am only sorry that there has been any suggestion raised by innuendo, inference or otherwise to the contrary, because I do not feel that such a suggestion is justified or warranted in any way.

Mr. MACDONALD (*Rosedale*): May I ask one question?

Some hon. MEMBERS: No.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I think this is a critical question. My question is with reference to the liquidity of the assets, apart altogether from a balance sheet. Are you in a position to meet your liabilities as they fall due.

The CHAIRMAN: Order. First of all, Mr. Fulton, I think, when I interrupted Mr. Stevens at five to eleven, in effect suggested, picking up the thought that I was going to express, that Mr. Stevens be allowed to add such further comment as he saw fit regarding the position of the companies of the BIF group in so far as they pertained to the interest of their shareholders and depositors, it was my suggestion originally that perhaps we might accept one or two questions along those lines, but I might ask the Committee now whether they feel this is opening the door to us continuing on into the dawn.

Mr. MACKASEY: On a point of order, Mr. Chairman, if this Committee is really sincere in not doing injustice to companies outside the Bank of Western Canada, then Don Macdonald's question is extremely pertinent, and I would gladly withdraw any questions I have in view of Don's question. The fundamental point here is that innocent people should not be hurt, no matter what time it is.

The CHAIRMAN: I think that the fairest approach to this would be to permit Don Macdonald's question with the understanding that it be limited to the particular aspect that Mr. Fulton raised and that I touched on—

Mr. THOMPSON: This question could leave more doubt and we would have to go on and question for a couple of hours.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I suggest it would be irresponsible to leave it at this point.

Mr. CHAIRMAN: No, I would be responsible.

Mr. MACDONALD (*Rosedale*): You certainly would be and I suggest that you might think about your own position.

Mr. THOMPSON: Is Mr. Stevens satisfied to leave it at this point?

Mr. STEVENS: I have no objection to answering the question, if you want an answer.

The CHAIRMAN: I think the time we are taking to debate this aspect could have been time enough to have this question asked and answered. It was my original suggestion that we permit a question of this type and allow Mr. Stevens to answer it.

Mr. MACDONALD (*Rosedale*): I shall rephrase my question with respect to the liquidity assets. Do your companies—I refer to the BIF group—and particularly the deposit-taking institutions expect to be in a position to meet their current liabilities as they fall due?

Mr. STEVENS: There is absolutely no doubt on that question. In fact, I think if you disected our deposit-taking institutions, as you refer to them, you would find that they have potential liquidity greater than most institutions in similar fields.

Mr. MACDONALD (*Rosedale*): And that includes liabilities payable on demand.

Mr. STEVENS: Yes.

The CHAIRMAN: Well, gentlemen, before we adjourn we are going to have to decide whether we want to meet tomorrow afternoon after the orders of the day or whether we want to continue Thursday morning.

An hon. MEMBER: When is the next meeting?

The CHAIRMAN: Ordinarily we meet on Thursday, but I would suggest to the Committee that because of our obligations to the House we might consider meeting tomorrow to complete our hearings with Mr. Stevens and Mr. Coyne, and then we will have the minister with us Thursday morning. This, of course, is not necessarily a precedent for our further schedules, but I think we do have an obligation to the House to get on with the matters referred to us. I suggest if we are agreed on this we adjourn until 3.45 tomorrow afternoon.

APPENDIX "TT"

EXTRACT from the minutes of a meeting of the Honourable the Treasury Board, held at Ottawa, on August 3, 1966.

T.B. 658534

TREASURY BOARD

The Board, pursuant to section 9, of An Act to Incorporate Bank of Western Canada, orders as follows:

1. The acceptance of subscriptions for shares of the capital stock of the Bank of Western Canada without regard to the provisions of section 6 of the Act is hereby approved subject to the terms and conditions hereinafter set forth in this Order.

2. (1) The acceptance by the Bank of subscriptions for shares of the capital stock of the Bank by residents within the meaning of section 5 of the Act shall be in accordance with and subject to the following terms and conditions, namely:

(a) that the bank shall not accept a subscription for a share of the capital stock of the Bank in circumstances where if the subscription were a transfer of the share the Bank would be required under section 6 of the Act to refuse to allow the transfer to be made or recorded, except in the case of an offer to subscribe for shares by preferred subscribers on the initial offering of shares and as provided by subsection (2) of this section;

(b) that on the initial offering of shares the Bank shall not accept a subscription for a share of the capital stock of the Bank by a preferred subscriber if, as a result of the acceptance by the Bank of such a subscription, the aggregate par value of the shares to be held in the name or right of or for the use or benefit of preferred subscribers would exceed four million seven hundred and fifteen thousand ($4,715,000) dollars;

(c) that on the initial offering of shares the aggregate par value of all shares to be offered for subscription on such initial offering shall not be less than eight million six hundred and fifty thousand ($8,650,000) dollars;

(d) that all moneys received upon the subscription for shares of the Bank on the initial offering of such shares shall be deposited in a chartered bank until a certificate permitting the Bank to commence business is issued in accordance with the Bank Act, and no disbursements shall be made from such moneys except as authorized by paragraph (c) of subsection (1) of section 13 or by subsection (2) of section 15 of the Bank Act;

(e) that the shares of the Bank that are held in the names or right of or for the use or benefit of preferred subscribers in any number in

excess of ten per cent of the total number of issued and outstanding shares of the Bank shall be disposed of absolutely by such persons before the first day of January 1977, unless the Governor in Council, on the application of the Bank made before the first day of January, 1975, extends the time for such disposal to a later date;

(f) that the Bank, during the period in which the preferred subscribers hold in the aggregate more than ten per cent of the shares of the Bank issued and outstanding, shall not, directly or indirectly, except with the prior approval of the Minister of Finance,

(i) make a loan or advance to or deposit with,

(ii) guarantee a loan or advance to or deposit with,

(iii) purchase the securities or shares of, or make a loan or advance on the securities or shares of,

(iv) purchase any assets from, or

(v) assume any liabilities of,

any of the preferred subscribers whether or not they are then shareholders of the Bank.

(2) A subscription for shares of the capital stock of the Bank by an individual who is an associate of a preferred subscriber but who is not himself a preferred subscriber may be accepted by the bank, and may be voted by that individual, as if he were not so associated with a preferred subscriber.

(3) In the case of a subscription pursuant to an offer under section 36 of the *Bank Act*, the Bank may, for the purposes of any subscription by any subscriber, count as shares issued and outstanding all the shares included in the offering.

3. The voting rights pertaining to any shares of the capital stock of the Bank held in the name or right of or for the use or benefit of preferred subscribers shall be exercised by or on behalf of the holder thereof in accordance with and subject to the following terms and conditions, namely:

(a) that the voting rights pertaining to such shares shall not be exercised in person or by proxy if any of the terms or conditions of this Order are violated; and

(b) that the voting rights pertaining to such shares may only be exercised, in person or by proxy, so long as the percentage of such shares held in the name or right of or for the use or benefit of preferred subscribers does not exceed either.

(i) the percentage that the number of shares subscribed for by the preferred subscriber after the closing of the stock books of the Bank on the initial offering of shares is of the total number of shares subscribed for at that time by all the subscribers for such shares, or

(ii) the smallest percentage (not being ten per cent or less) that the number of shares held in the name or right of or for the use or benefit of preferred subscribers at any time after the first issue of shares is of the total number of shares of the Bank issued and outstanding.

4. In this Order,

(a) "Act" means An Act to incorporate Bank of Western Canada;

(b) "associate" in relation to any subscriber or shareholder means

(i) any person who would, under subsection (2) of section 5 of the Act, be deemed to be a shareholder associated with the subscriber if both the subscriber and such person were then shareholders of the Bank, and

(ii) any shareholder of the Bank associated with a shareholder within the meaning of subsection (2) of section 5 of the Act;

(c) "Bank" means the Bank of Western Canada; and

(d) "preferred subscriber" means the following persons, namely:

(i) Wellington Financial Corporation Limited,

(ii) Canadian Finance and Investments Limited,

(iii) York Trust and Savings Corporation,

(iv) any corporation that after the date of this Order acquires, by amalgamation, merger, arrangement or otherwise, the assets of any or all of the corporations named in subparagraphs (i) to (iii),

(v) any corporation that is an associate of any of the corporations described in subparagraphs (i) to (iv) of this paragraph, and

(vi) any individual who is an associate of any of the corporations described in subparagraphs (i) to (v), if the total par value of the shares subscribed for or held by such individual exceeds five thousand ($5,000) dollars.

5. This Order may be cited as the Bank of Western Canada Subscription Order, 1966.

(signed) "C. J. Mackenzie"
Assistant Secretary

I, C. J. Mackenzie, Assistant Secretary of the Treasury Board of the Government of Canada, hereby certify that this is a true copy of a document of the Government of Canada, the original of which is in my custody.

(Signed) "C. J. Mackenzie", Assistant Secretary of the Treasury Board

Dated at Ottawa,
Canada, this 8th
day of August, 1966

APPENDIX "UU"

Statement by James E. Coyne

Winnipeg, February 3, 1967.

I have resigned from the boards of directors of British International Finance (Canada) Limited and The Wellington Financial Corporation Ltd. as I no longer have confidence in the management or policies of those companies.

In particular, in their relations with the Bank of Western Canada (in which they have voting control through stock holdings), they appear to have forsaken principle for expediency, and their image is doing a disservice to the Bank of Western Canada.

In connection with the Bank of Western Canada, they have failed to make good their subscription for shares to the extent of about $1,500,000, they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the Committees of the Senate and of the House of Commons, and they are presently engaged in a borrowing operation with American banks which involves the giving of an option on 10% of the total shares of the Bank of Western Canada and various arrangements designed to tie the management and operations of the Bank to the operations of these American banks, again contrary to statements made when applying for a charter.

I feel these matters must be made known to the people of Western Canada and the rest of the country. I am now convinced that no group of persons or companies such as this should be permitted to exercise control over a Canadian financial institution, whether federal or provincial.

I wish to recommend to Parliament that, before the new Bank Act is finally passed, the prohibition upon voting stock, in excess of 10% of the total, be put back into force for new Banks, just as it is for the older banks. In other words, the authority given to the Treasury Board or to the Governor in Council to grant exemption to majority shareholders in new banks should be reversed. In addition, there should be provision that no American bank shall be entitled to hold any shares in a Canadian bank, and certainly not any voting shares.

At 11:30 this morning, I read an article in The Financial Post issue of February 4, 1967, attributing certain statements to Mr. Sinclair Stevens, President of British International Finance (Canada) Limited. The statements are put in quotation marks and the article is signed by the paper's correspondent.

The statements are such that I must completely dissociate myself from them and state that I would, on that account alone, have to resign from the boards of directors of the companies in Mr. Stevens' group if I had not already sent in my resignation the night of February 1st.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 45

WEDNESDAY, FEBRUARY 8, 1967
THURSDAY, FEBRUARY 9, 1967

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Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

The Hon. Mitchell Sharp, Minister of Finance; Messrs. Sinclair M. Stevens, President, British International Finance (Canada) Limited; James E. Coyne, President, Bank of Western Canada; W. E. Scott, Inspector General of Banks.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25702—1

STANDING COMMTTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Chrétien,
Clermont,
Coates,
Comtois,
Davis,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Latulippe,
Leboe,
Lind,
Macdonald (*Rosedale*),
Mackasey,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, February 8, 1967.

Ordered,—That the name of Mr. Munro be substituted for that of Mr. Cashin on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25702—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, February 8, 1967.
(92)

The Standing Committee on Finance, Trade and Economic Affairs met at 3:50 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Coates, Flemming, Fulton, Gray, Latulippe, Leboe, Lind, Mackasey, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Wahn—(16).

Also present: Messrs. Ballard, Caouette, Grégoire, Lewis, Munro, Régimbal, Ryan, Sherman, Thompson.

In attendance: Messrs. Sinclair M. Stevens, President, British International Finance (Canada) Limited; James E. Coyne, President, Bank of Western Canada; W. E. Scott, Inspector General of Banks.

Questioning of Mr. Stevens begun at the meeting of February 7th, was continued.

At 6:21 p.m., on motion of Mr. Monteith, the Committee adjourned until 11:00 a.m., Thursday, February 9, 1967.

THURSDAY, February 9, 1967.
(93)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:05 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Davis, Flemming, Fulton, Gilbert, Gray, Irvine, Laflamme, Latulippe, Leboe, Lind, Mackasey, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*)—(17)

Also present: Messrs. Beer, Grégoire, Ryan, Sherman, Thompson.

In attendance: Messrs. James E. Coyne, President, Bank of Western Canada; Sinclair M. Stevens, President, British International Finance (Canada) Limited; The Hon. Mitchell Sharp, Minister of Finance; W. E. Scott, Inspector General of Banks.

Mr. Coyne was recalled, made a statement and was questioned.

Mr. Stevens made a brief statement clarifying a point raised earlier.

The Chairman thanked Messrs. Coyne and Stevens, who were permitted to withdraw.

Mr. Sharp was called and questioned.

The questioning having been concluded, at 12.40 p.m. the Committee adjourned until 3:45 p.m. this day at which time the Committee will commence consideration of Bill C-261.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

WEDNESDAY, February 8, 1967.

The CHAIRMAN: Gentlemen, I think we are in a position to begin our meeting.

When we recessed last evening Mr. Stevens had completed his introductory statement and I believe we permitted Mr. Macdonald to ask a clarifying question. I think it would now be in order for us to begin a round of questioning of Mr. Stevens. You will recall we asked Mr. Coyne to stand down so that we could have Mr. Stevens' introductory statement during the same hearing. To start the round of questioning, as he asked a question yesterday evening, I will first recognize Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I will defer to other members as I had the opportunity of questioning last night.

The CHAIRMAN: Fine. I will recognize Mr. More and I will deal with other members as they catch my eye. Are you prepared to begin, Mr. More?

Mr. MORE: Yes, Mr. Chairman. I would like to ask Mr. Stevens, in view of the statement he made about his so-called representations at two meetings of the Bank of Western Canada on December 16 and January 20, were all the directors of the bank present at both those meetings?

Mr. SINCLAIR M. STEVENS (*The Chairman, Bank of Western Canada*): I could not say, Mr. More, that all directors were present. I think I could probably tell you how many were present.

Mr. MORE: You have 17 directors?

Mr. STEVENS: Yes, and at the January 20th meeting there were 12 shown as being present; at the December 16th meeting there were 13 present.

Mr. MORE: Could you indicate if the absentees were members of your group of companies or if other directors at large could have been supported?

Mr. STEVENS: This gets into a kind of confusing situation. I think Mr. Coyne referred to the fact, for example, that Peter Lougheed and Leslie Bodie are both directors of the Alberta Fidelity Trust. We have a one-third interest in Alberta Fidelity and I remember in a *Globe and Mail* article they referred to those two directors as being BIF group people. I see that both those people were absent from that January 20 meeting. Rex Nesbitt was absent; he is a director of one or two of our companies, but I think when people refer to the BIF group they usually mean those who are still resident in Toronto.

Mr. MORE: Could we do it this way, perhaps; there are only five or six names in each case and if you indicated who were absent we can decide in our own minds on their relationship.

Mr. STEVENS: At the January 20 meeting Peter Lougheed, Mark Collins, Rex Nesbitt, Mr. Thomas and Mr. Bodie were absent. I think that would be right.

Mr. MORE: What about the December 16 meeting?

Mr. STEVENS: How many did I say were present at that meeting?

Mr. MORE: You said there were 13 present, so there were four absentees.

Mr. STEVENS: Yes. There were two subsequently elected. The meeting began with 13 and then there were two elected, namely Mr. Chiapetta and Mr. Shanski.

Mr. MORE: There were only two absent, then?

Mr. STEVENS: I think there would only be two absent and those two would have been Mr. Nesbitt and I think Mr. Lougheed.

Mr. MORE: Your statement last night indicated that this matter was discussed on the basis of providing information to the directors and examining the position you were in because of the order issued by Treasury Board. I might say it sounded plausible and reasonable but on the basis of the fact that indications are that all the western directors support Mr. Coyne's position, would there not be a general indication to those of us hearing evidence that perhaps, indeed, your statement and your presentation went further than you have indicated?

Mr. STEVENS: I do not feel, in fairness, that it did. In fact, a matter that I did not mention yesterday was that prior to the December 16 meeting there had been a discussion in Toronto on December 13 of this same subject, at which I outlined the general facts that I mentioned briefly to you yesterday concerning the group's position and the effect of the Treasury Board order and the fact that maybe we should seek clarification of this—

Mr. MORE: Was the December 13 meeting a fully—

Mr. STEVENS: Oh no, this was a meeting at which Mr. Coyne was in attendance as well as Mr. Bell, Mr. Bruce, Mr. Thomas and myself.

Mr. MORE: In other words, a meeting amongst your group rather than the Bank of Western Canada?

Mr. STEVENS: That is right. I mentioned at the time that I thought that I would raise this point at the coming directors' meeting on December 16 and I had the impression that Mr. Coyne had no particular objection to it and I think he felt at that point that it was a matter that possibly should be clarified with the Minister of Finance.

Mr. MORE: I want to go to the basic reasons that you gave for your move to examine this situation and to suggest that perhaps your future needs might involve the Bank of Western Canada as a restriction of your companies' previously negotiated lines of credit with chartered banks in Canada. As I recall it, I think you said that the change of attitude by the banks with whom you had these lines of credit led not only to a reduction in lines of credit for your companies, but also a reduction in lines of credit to directors and companies of directors connected with the board of the Bank of Western Canada. Am I misstating this in any way?

Mr. STEVENS: No, I think that is generally true.

Mr. More: This certainly is—I do not know whether "accusation" is the proper word to use or not—a matter of great interest to me as a member of the Committee dealing with bank revisions and I feel it is unfair to leave it in this general manner without identifying and producing some evidence to back up your statement, Mr. Stevens. Are you prepared to do this in any way?

Mr. Stevens: I think in fairness to the directors who told me this—and they told it to me as Chairman of the Board—I do not want to put them in a more awkward position than they are in at present, but I mentioned that point simply to repeat what I had already repeated to the board of directors at the time of the December 16 meeting, and that was that certain of the directors had felt some repercussions on becoming directors of the Bank of Western Canada.

Mr. More: So your statement that you had personal knowledge of this—I remember this and I think I would say this is a quote from the statement you made last night—is only based on conversation and not on any real evidence which you can produce?

Mr. Stevens: If you mean could I produce a letter from a bank addressed to one of our directors stating that whatever credit facility was available it is no longer available in view of the fact that you are now a director of the Bank of Western Canada, I cannot do that. I am simply stating that the directors concerned came to me and said that they had gained the impression—mind you, I think that banks are very reluctant to put anything in writing—

Mr. More: Are trust companies?

Mr. Stevens: That they had gained the impression from their respective banks that their existing credit arrangements were no longer as attractive to the particular bank, and in some degree they were either lessened or, I think in one case, completely cut off. The thing that is very nebulous, of course, in this type of arrangement is that a bank naturally will not state too positively that they are cutting off anybody's credit for the reason that he is a director of another bank, and in fairness to the banks it may be that in each instance there was some other reason that caused them to take this action. But having said that I would have to also say that in the minds of these directors the fact that they had joined our board was at least part of the reason why their credits had been lessened.

Mr. More: This is not very much in the way of evidence. Would you not say that perhaps other companies who had no connection with your group or the Bank of Western Canada have had the same problems in the present climate that you have had?

Mr. Stevens: When I was referring to this yesterday I believe I said that I would not like it to be said that the lessening of credits in our group was only due to the formation of the Bank of Western Canada. There has been tight money and I think banks generally have tried to cut back on many accounts.

Mr. More: Your statement, rather than being based on evidence, is based on innuendo, is it not, that the Bank of Western Canada indeed was a factor in the cut-back of credit? This is your statement as I interpret it.

Mr. Stevens: In the cases with which I am connected it is definitely a factor in the cut-back of credit.

Mr. More: This was stated to you personally in your dealings with the bank concerned?

Mr. STEVENS: Yes.

Mr. MORE: What bank was it? I ask the Committee to consider that as long as we are left without the knowledge of whom you deal with that charges are being made which reflect on eight chartered banks, and I suggest it is very relevant to your evidence and your argument.

Mr. MONTEITH: May I ask a supplementary question, Mr. Chairman? How many banks did your group of BIF companies deal with, shall we say, back in 1964 when you had a $5 million line of credit or in 1965 when you had it even as high as $13.9 million at one stage?

Mr. STEVENS: I think I can give you that information. We dealt with four Canadian banks.

Mr. MONTEITH: Four Canadian banks.

Mr. STEVENS: To a lesser extent there were two other banks involved, but the main banks would be four and then to a lesser extent two others, so there would be six in total.

Mr. MORE: I asked a question, Mr. Chairman, and—

The CHAIRMAN: All right. I think, unless Mr. Stevens is prepared to answer immediately, I will first invite any comments that the members of the Committee may have as to why this information should or should not be requested from Mr. Stevens. Are there any comments one way or the other?

Mr. MACKASEY: Mr. Chairman, on a point of information so that I can make up my mind, first of all would it be illegal under our Bank Act for a chartered bank to reduce the credit of BIF?

Some hon. MEMBERS: No, not at all.

Mr. MACKASEY: I know the answer but I want to get it from the Chairman.

The CHAIRMAN: I do not think I am in a position to give a legal opinion, although I am almost tempted to do so, but I presume that if the loans are payable on demand, they are call loans then the arrangements could be changed at any time.

Mr. MACKASEY: The point is that if these Canadian chartered banks had reduced Mr. Stevens credit down to—I think he mentioned $150,000 last evening—they were within their legitimate legal rights to do so. What purpose would then be served in divulging the names of these particular banks?

The CHAIRMAN: I suppose it would be interesting to some members of the Committee, at least, to know,—

Mr. MACKASEY: Just to satisfy curiosity.

The CHAIRMAN: —aside from the legality, what the motives were.

Mr. MONTEITH: In no instance, Mr. Chairman, during our total discussions of the Bank Act thus far have we mentioned specific banks in specific cases.

The CHAIRMAN: Are there any other comments from members of the Committee?

Mr. CAOUETTE: I think that by naming those banks it would enable us to ask more questions of the banks concerned. I believe it would be in the public and

the general interest, and also of interest to the Committee, to know with which of those banks—the four main banks and the two others—the BIF group dealt.

The CHAIRMAN: Are there any further comments from members of the Committee? I will recognize you, Mr. Grégoire.

(*Translation*)

Mr. GRÉGOIRE: Yes, Mr. Chairman, I was wondering whether after the testimony of Mr. Stevens the other chartered banks of which mention has been made would also testify in this regard?

The CHAIRMAN: It would be up to the Committee to decide whether we wish to ask other witnesses to come or the same witnesses to testify.

Mr. GRÉGOIRE: Now, Mr. Chairman, there is also an important point involved here. Indeed I think this is the essence of the matter. When the Bank of Western Canada was being established and in other circumstances, particularly when we were discussing the Mercantile Bank, the Canadian Bankers' Association, i.e. the chartered banks stated in their evidence that not only they did not fear competition, but that they desired it that a new bank would provide more competition in the banking field. Would this not be a contradiction which perhaps might come out of this discussion?

(*English*)

Mr. MACKASEY: Mr. Chairman, there are only eight chartered banks and last night Mr. Stevens said that he was not doing any business with the Mercantile Bank. The only one I can think of beyond that and it would be too small to do business even with his empire, is the Provincial Bank, so it is pretty obvious—

The CHAIRMAN: The Provincial Bank may want to quarrel with that statement, I do not know, but I think that you are being very helpful in that regard, Mr. Mackasey. Perhaps I should ask if there are other comments from those who have not offered any yet and wish to do so. Mr. Wahn?

Mr. WAHN: Mr. Chairman, I can see that for perfectly good reasons it might be embarrasing to the witness to have to give the name of a specific bank. I do not think it will help our inquiries very much because I do not believe that any banker would admit that he had cut down the line of credit of a director because the director was associated with a newly-incorporated bank. These things are just not done that way.

The CHAIRMAN: I just want to interject here, Mr. Wahn. I thought that the matter I was going to have to determine, with respect to an answer, was with regard to Mr. Stevens' direct contact with banks relating to changes or limitations on lines of credit. I do not think at this point Mr. More was pressing for the names of the banks that had been in touch with directors of the Bank of Western Canada. Am I right in that, Mr. More?

Mr. MORE: That is right.

Mr. SHERMAN: The same thing would apply to Mr. Stevens, who is a director and one of the initiators of the bank.

Mr. MCCLEAVE: Mr. Chairman, I do not think it would help us in any way to know the names of the particular banks. There are only a few of them and we can pretty nearly guess.

Mr. COATES: I do not think we should have to guess. Is it not fair to ask Mr. Stevens what bank he did business with? I think this should be available to the Committee.

The CHAIRMAN: I will render a decision as soon as I give Mr. Stevens an opportunity to speak.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Could I say a word? I think perhaps we should explore it a little bit further. I am sure every member of the Committee is dying to know the name of that bank, but nevertheless—

Mr. MORE: I am not going to die about it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am glad to hear that, Mr. More. Obviously, Mr. Chairman, if Mr. Stevens does give the name of the bank some Committee member is going to ask that bank to appear.

Mr. MACKASEY: Is it one bank or six banks, Mr. Cameron?

An hon. MEMBER: Four.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Will one bank or six, or whatever. I think Mr. Stevens confined it to one bank on which I gather he had specific information, direct contact with one bank. Was that it?

Mr. STEVENS: Uh-huh.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then certainly some member of the Committee is going to suggest that we have that bank before us and like other members of the Committee, I cannot see that bank saying that, even though the reason for the curtailment of credit may well have been the connection with the Westbank, and it is difficult to see how that bank could come on the stand without suggesting by implication that there was some other reason for cutting off credit which might or might not be justified.

Mr. MONTEITH: Might I suggest this solution, and I am only suggesting this because I think Mr. Cameron has a very valid point. Why could we not could deal with them as A, B, C and D? It does not give us any indication but we may get a different approach from different banks.

Mr. MORE: Mr. Chairman, I am not goint to press the point for the single bank. My view is that if Mr. Stevens' statement is backed by any evidence, then it indicates to me an action in restraint of competition, which they have stated they desire by presently operating banks and which I think, regardless of the statements made about what the bank might or might not say, the members could conclude from their own experience what was the true state of affairs. I think you indicated, Mr. Stevens, that the major part of your business was with four banks, and then you added two more. Perhaps it would not be wrong to ask that you name the four banks and we will leave it at that, if that is acceptable to the Committee, I would accept that as an answer to the question.

The CHAIRMAN: Do you have any comments, Mr. Stevens, before I attempt to render a ruling in this regard?

Mr. STEVENS: No, other than—

Mr. MACKASEY: On a point of order, Mr. Chairman.

The CHAIRMAN: Let us first hear from Mr. Stevens. He may say something that will assist us in determining this matter and then I will recognize you, Mr. Mackasey.

Mr. STEVENS: I feel I should clarify one point. It was suggested that obviously we did not deal with the Mercantile Bank and I made that clear yesterday. What I tried to make clear was that the American bank that was referred to was not the first National City Bank

The CHAIRMAN: The bank that was interested in possibly buying shares of the Bank of Western Canada?

Mr. STEVENS: That is right, but I did not mean to infer that we were not dealing with the Mercantile Bank in one way or the other in Canada, as far as our ordinary business needs were concerned.

Mr. MACKASEY: My point of order, Mr. Chairman, is that I am confused because I have heard two different statements from Mr. Stevens. At least, I think I have. In one case he was refused by one bank, in which case that bank certainly had a legitimate right and, secondly, I was then led to believe by Mr. Stevens that he was refused by four banks and subsequently by two others, which would give strength to Mr. More's argument of collusion or restraint. I would like to know which it is. Who refused you a line of credit, Mr. Stevens?

The CHAIRMAN: I think I had better determine the matter right now. In the first place, it would seem to me that while problems could be created both for Mr. Stevens by divulging the information and for the banks by having their names mentioned, at the same time by alluding in even general terms to the situation is in effect inviting questions which would lead to the divulging of the names of the institutions in question. I think Mr. More has rased a point which would indicate the relevance of this information in relation to the general inquiry we are carrying out on behalf of parliament. I might also add that, of course, in appearing here as far as certain legal consequences of statements are concerned, there is a certain immunity granted to Mr. Stevens, although I do not know whether that immunity would extend to the maintenance of his banking relations. That is another matter.

Mr. STEVENS: That is what I am worried about.

The CHAIRMAN: As I was about to say, Mr. Stevens, this was a matter which you had to take into account when you gave us in general terms certain information regarding the limiting of your banking connections. Inasmuch as you have, in effect,—although you may not have realized it—just given us the name of one of the banks with which I gather you may have been dealing, namely the Mercantile, if I understood you correctly, I would therefore rule for a start at least that it would be in order for Mr. More to ask, and for you to answer a question as to the names of the four banks you have alluded to principally.

Mr. MACKASEY: Are there four banks or one bank? I do not know.

Mr. MORE: He indicated four. I will go from the first position and ask Mr. Stevens to name the four banks with whom the major part of his lines of credit were arranged.

Mr. STEVENS: Yes. The Canadian Imperial Bank of Commerce; The Bank of Nova Scotia; The Mercantile Bank of Canada; The Toronto-Dominion Bank

and, to a much lesser extent, The Royal Bank of Canada and the Banque Canadienne Nationale. Recently, I think, we have had one account with the Bank of Montreal. I suppose we are really dealing with all seven, with the exception of the Provincial Bank.

Mr. MACKASEY: Which is probably the best of them all. Size does not mean everything.

Mr. STEVENS: Maybe we should try it.

The CHAIRMAN: You may have to.

Mr. MORE: This becomes very interesting. I only asked for four and I now have seven.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I thought you had only asked for one.

Mr. MORE: That was the original question. Are you sure that the eighth bank is not involved some place? Are you positive about that?

The CHAIRMAN: That is what makes these Committee hearings so interesting.

Mr. STEVENS: I do not think we are.

Mr. MORE: I am perhaps speaking with a tongue in cheek and you may want to rule. Could I ask you generally if your lines of credit with all these banks have been—I think I am fairly interpreting your statement—arbitrarily reduced since you became interested in forming the Bank of Western Canada?

Mr. STEVENS: I would not like to put it that strongly in that I am simply stating that I believe, from conversations with bankers and during negotiations, that the Bank of Western Canada has definitely been a factor in the thinking of these banks concerning their future attitude to our banking needs, but I would emphasize that it is merely "a" factor. I think there are other factors. The trust companies are quite aggressive and they are competing directly in some instances with the banks. In banking language I think it is also very true to say that the tight money situation is one in which I think they tend to grade their credits in order of desirability. One of the least desirable credits would be a semi-competitor, as compared with somebody who was in no way competing with them.

Mr. MORE: I will not press this matter any further, Mr. Chairman. I wanted to try to clarify and move from the basis of innuendo to something of substance. I do not know whether I have accomplished that or not.

In your statement you indicated that in the tight money situation, or in your problems with obtaining lines of credit, you did obtain from a Canadian chartered bank a line of credit for which you paid 8 per cent. I would like you to explain how it came about that you paid 8 per cent. My understanding is that compensatory balances and charges bring it up from 6 per cent to something over 7 per cent, but I have never heard of it reaching 8 per cent. If I did not misunderstand, you made the flat statement that this loan from a Canadian chartered bank which was made during a period within the last two years, had cost you 8 per cent. Could you explain that?

Mr. STEVENS: Will I have to name the bank?

Mr. MORE: I have not asked for that yet. I will listen to your explanation.

Mr. STEVENS: It was simply done by the process of a sale and repurchase agreement.

The CHAIRMAN: Could you expand on the technique involved in that for us?

Mr. STEVENS: Certain securities were sold to the bank on the basis that if we wished to re-purchase them we could do so, and in repurchasing the effective return to the bank would be 8 per cent.

Mr. MORE: Is this sort of a discounting basis? Is this a bank procedure in connection with commercial loans? I understood it was with consumer loans but this would be a commercial loan?

Mr. STEVENS: No, it is different from the approach used in the consumer loans in that it is a process that is often used, I think, among investment dealers where you buy, for example, a bond at a certain price on the understanding that it can be repurchased by the seller at a higher price in order that the institution that originally did the buying—

Mr. MACKASEY: It would be better to call it a pawn shop technique rather than sale and purchase because of the similarity, if I recall, from the olden days.

Mr. STEVENS: I think it is quite a legitimate transaction. The point I was making, though, is that it gave the bank an effective 8 per cent return.

Mr. MORE: It was not an unusual transaction between groups of companies of your nature and banks?

Mr. STEVENS: It is the only time we have had to do it.

Mr. MORE: What was the amount of the funds and in what amount was this transaction?

Mr. STEVENS: This is getting pretty specific.

The CHAIRMAN: I am wondering, Mr. More, to what extent we should be probing into the internal operations of the companies involved and their relationships with their banking connections. It is one thing to talk about the technique of borrowing or financing, but you may feel it is another to deal with amounts.

Mr. MORE: I just wanted an indication of the scope.

Mr. STEVENS: It was a large loan.

Mr. MORE: It was a large loan.

Mr. STEVENS: Over $1 million.

Mr. MORE: I will be satisfied with that answer. Now then, Mr. Stevens, I just want to finish up with this question. The directors who reported to you that their lines of credit had been reduced or cancelled because of their connection with the Bank of Western Canada, were they directors connected with your group of companies or where there some directors outside your group of companies that were involved?

Mr. STEVENS: Certainly from my standpoint they were all outside our group of companies in the sense that any active BIF directors were not included in the group to which I am referring. Sometimes I feel that it I merely shake a man's

hand he is referred to as a BIF man. If a person is a director of Alberta Fidelity, for example, the fact that we own a third of that company to my mind does not mean that that is a BIF company, and if that director is the one in question I think it is unfair to say that he is a BIF man.

Mr. MORE: Could I put it a little differently. Were the directors resident in the east?

Mr. STEVENS: No, I think there were three resident in the west and one in the east.

Mr. MORE: How many directors do you have in the west?

Mr. STEVENS: Eleven.

Mr. MORE: I did some telephoning last night and I could not verify your statement. I got a flat denial that they had been affected in any way, shape or form because of their activity in this matter.

The other statement I want to refer to is the statement you made that banks with whom you had lines of credit had files tabbed, "Pre-Bank of Western Canada", "A.D. Bank of Western Canada", or something. Did this knowledge come to you directly through dealing with the bank or have you secured an employee from this bank who gave you this information?

Mr. STEVENS: No, it came directly from dealing with the bank.

Mr. MORE: Thank you, Mr. Chairman, I am finished.

The CHAIRMAN: I recognize Mr. Thompson followed by Mr. Flemming, Mr. Monteith and Mr. Lind.

Mr. THOMPSON: Mr. Stevens, Mr. Coyne said in very forceful language that you were not just asking for money from U.S. banks but that you were actually travelling about offering shares in the Bank of Western Canada to U.S. banks, not for any particular benefit or privilege, I think he said, for the Bank of Western Canada but for special privileges for the BIF group of companies. He also stated that you were going in by the back door where you are forbidden by regulation or legislation from entering by the front door. Then in your statement you referred to the fact that you had offered Bank of Western Canada shares to different American banks. How can you compare that with the statement which you made on March 3 last year when you appeared before this Committee?

I will read from your own testimony:

> On that point I would say that the selling off of some of our shares is always a possibility.

The CHAIRMAN: What is the page number?

Mr. THOMPSON: Page 115.

> I would say it is extremely unlikely that we would be selling off shares to any large degree in the next five years, and I could say fairly safely within ten years.

What is it that has caused you to adopt a course of action—which you have yourself admitted and to which Mr. Coyne referred—that is so contrary to this very definite statement which you made on March 3, 1966?

Mr. STEVENS: I believe, Mr. Thompson, this was in reference to the general discussion that was taking place during that part of the hearing which was concerned with how we would come down to the 10 per cent level, which we were required to do under the Treasury Board order. In direct answer to your question I would say that there really has been no change in our thinking, in that as far as we are concerned the sale of a block of our holdings in the Bank of Western Canada is something that we know we have to meet at some stage. The point I was making here was that we anticipated we would hold shares for possibly five years before we would sell them but, on the other hand, I qualified that by saying that the selling off of some of our shares was always a possibility. The thing that has prompted us to consider the sale of any Bank of Western Canada shares is that in discussing the future of the Bank of Western Canada we ran into—I think I referred to this at least in part yesterday—a very strong opinion from some of the western directors that the preponderance of control in the BIF group was detrimental to the image of having western Canadians accept the Bank of Western Canada as a truly western institution in the sense that it is intended to be as far as we are concerned. I believe Mr. Coyne was quite definite on this specific point in that he felt it was becoming extremely difficult to sell the Bank of Western Canada image with the BIF position as predominant as it was. Consequently at our directors meeting we proposed that we would certainly be interested in negotiating if there was a western group that wished to buy a portion of our shares and if a proper deal could be worked out. Now, tied in with the same thinking, the more we have explored the future of the Bank of Western Canada the more we—referring to myself and the BIF associates—feel that it would be an advantage to the development of the Bank of Western Canada if they did have a banking partner participant in the sense that the know-how and the knowledge and the possibility of participation in loans that such a bank could generate to the Bank of Western Canada—

Mr. THOMPSON: You are now referring to an American bank when you say that?

Mr. STEVENS: Probably an American bank but possibly any foreign bank. When I say "probably" I mean there is a 99 per cent probability it would be an American bank. This idea has partly grown from the fact that during the fall of last year we had some of our people go down into the eastern, central and western sections of the United States and they met with banking concerns to discuss where they might be willing to co-operate with the Bank of Western Canada in getting us established and running. During these conversations, and I would emphasize that this has never been a big point, the possibility of a possible equity participation arose, from time to time, but the only thing of a definite nature that arose was the New York transaction which was referred to yesterday. When I say definite I mean on a first refusal basis, but that is the furthest it has ever gotten in any type of serious conversation. Now, there again I would mention that the proposition involving the New York bank is one in which initially the New York bank stated that they felt they would probably be interested in buying an interest in the central BIF company, and the first refusal simply refers to the fact that the New York bank have a first refusal in the event that we wish to sell shares either in the BIF concern or in the Bank of Western Canada. The thinking behind it is more along the lines of developing the

association with the bank in New York than it is in the idea of their buying the equity in the Bank of Western Canada. In fact, last evening I came across the letter that had initially been sent to that bank, and it was not asking for any line of credit but was simply referring to the possibility of an association with our BIF group, and I thought it was interesting to note that while the letter, I think, was ten pages long, the Bank of Western Canada was referred to on less than a page. The main points that we were talking to the New York bank were on 90 per cent other than the Bank of Western Canada. In other words, in that letter we were describing our full group, all our trust operations, our operations in international fields, our methods of growth, and this type of thing. The reference to the Bank of Western Canada took less than a page.

Mr. THOMPSON: You said last night, I think, that you had approached probably ten different banks in the three areas of the United States and you asked them if they would be willing to co-operate in participating in the bank of Western Canada. Were you then offering them shares in the Bank of Western Canada or shares in the BIF group, or both?

Mr. STEVENS: No. In most instances when we approached these banks there was no discussion of any equity participation with respect to those banks. The discussions were more along the lines of working out corresponding banking relationships. The American banks are quite co-operative in giving you administrative manuals and information on procedures and establishing reciprocal arrangements with banks. They are particularly interested in developing and cultivating connections with any bank in Canada, as they have already done with the other eight. Our bank, as it is the ninth, it is only natural that in their own area they would be quite desirous of making early relationships with a new bank in Canada.

Mr. THOMPSON: Did you feel that any of these initiatives on your part contravened the agreement made with the Treasury Board in their minute No. 658534, dated August 3, 1966? Do you feel that you were contravening any of those requirements that were specified in that Treasury Board regulation?

Mr. STEVENS: I do not know in what way you would feel that we were contravening. Are you referring to a specific section, Mr. Thompson?

Mr. THOMPSON: Specifically, you were not to make any loans with any of the BIF companies. The bank was not to guarantee any liabilities of any of the BIF companies. It was not to purchase any assets from the BIF companies. None of these points were contravened, in your opinion?

Mr. STEVENS: No, definitely not. For example, as has already been brought out, the BIF group deal with the Mercantile Bank. Now, the Bank of Western Canada opened their first account with the Mercantile Bank. The two things are unrelated. The association that we would have with the American bank need not have any more relationship than in the case referred to with respect to the Mercantile Bank.

Mr. THOMPSON: At the December 16 directors' meeting I believe a resolution was proposed that certain actions be taken and it was suggested at that time that you go to the Minister of Finance to ask for his approval on this. I believe that you or Mr. Coyne said that this was opposed by certain directors of the bank?

Mr. STEVENS: It certainly never arrived at anything close to the resolution stage. The discussion that Mr. Coyne referred to was simply a discussion. It was a review in similar terms to that which I reviewed last night as the position of our group, the effect of the Treasury Board order and the fact that we were specifically prohibited from doing these various things without the consent of the Minister of Finance. There was no proposition put forward of a definite nature that we would like a line of credit or a loan of X amount. During the discussion this was made quite clear, as Mr. Coyne brought out by his reference to the fact that one of the directors said, "If you are actually applying for a loan under the Bank Act you will have to absent yourselves during the discussion", and I remember it was made clear that we certainly were not applying for a loan. All we were doing was trying to familiarize the directors with the situation leading up to the formation of the bank, our group position and the relevant portions of the Treasury Board order.

Mr. THOMPSON: Mr. Stevens, why did the BIF group not meet their commitments with the Bank of Western Canada by putting another $1.45 million into the bank? What was your reason for not meeting your commitment in this regard?

Mr. STEVENS: I think I touched on that to some extent last night. I would say the reason was partly one of disappointment in the failure of definite policies with respect to the Bank of Western Canada's future activities in that we were concerned by the fact that the bank was not being developed, from a policy standpoint, in a precise way to the extent that we would like to have seen. We had several discussions at previous meetings, including the December 16 meeting, and it seemed at that time—and still is in my opinion—to be quite indefinite from a policy standpoint, what kind of a bank we were going to have in the Bank of Western Canada. This was one influence on us.

The second influence was the fact that the directors of the bank—I think it was two or three of the western directors in particular—indicated that they felt that our participation in the bank was one of the most negative features in trying to convey the genuine western impression in the western provinces. As I mentioned last night, this put us in the odd position where we were still putting up more money and there was some suggestion that we should be selling our shares. One director even suggested that we should sell them at market, which I think would be $3 a share less than what we paid for them. One other suggestion was that we should put all our shares into a voting trust. From our standpoint this caused us to draw back. Another point was that while funds were available on the date in question, they were credit funds which we were using to put in. In other words, they were Wellington Financial Corporation assets which amounted to something like $10 or $11 million. When we put these funds into the Bank of Western Canada it will require a loan to be made against our assets. So, we are in the position, if we are going to sell these shares—as the western directors would like us to—where we are really warehousing them in the meantime by obtaining credit and carrying the shares until they are sold to some other buyer.

Mr. THOMPSON: You stated last night that you had established a line of credit for some $2½ million, $1½ million of which you had either drawn or it was available for drawing. Was that money intended to meet your obligations to the Bank of Canada?

Mr. STEVENS: Well, in part. I do not know that you could definitely earmark it. I know there is quite a difference between the two amounts. However, we do have other American lines as well and the total lines would be somewhere around $3½ to $4 million. I do not know that you could actually earmark the $1½ million, but I think it would be fair to say that part of the $1½ million would probably be used in the purchase of the remaining Bank of Western Canada shares. I hope there is no misunderstanding there. We still fully expect that these shares will be taken up and paid for, it is just we are in a bit of a quandary at the present time.

Mr. FULTON: You naturally have some internal problems to settle first.

Mr. STEVENS: Yes.

Mr. GRÉGOIRE: You have the money in hand.

Mr. STEVENS: No, we do not have it in hand but we have available credits. We can have the money if required.

Mr. MACKASEY: This commitment is an internal commitment?

The CHAIRMAN: Order, please. Are you willing to yield the floor, Mr. Thompson? Go ahead, Mr. Thompson.

Mr. THOMPSON: You then specifically refute the charge that Mr. Coyne made that you were using the Bank of Western Canada for the direct benefit of your group of BIF companies as a tool rather than those intentions which you stated over and over again when you appeared before the Committee in 1965 and 1966?

Mr. STEVENS: Yes, completely. We have been dealing with various American banks and, as I said yesterday, certain United Kingdom banks, and we feel that these contacts are contacts in the sense that they have been dealing with the BIF group or companies within the BIF group. I think Mr. Coyne made the comment to one of our people that he felt that any bank that we were dealing with, the Bank of Western Canada more or less automatically would not deal with them. We feel that this is taking the extreme approach in the sense that if you put it the reverse way, I do not know what would happen if the Bank of Western Canada started dealing with a bank and then we opened an account with them. I do not think this was ever intended in that the associations that you build with banks are something that generally, if you have friendly associations, you tend to cultivate and you do not, for example, in the same city deliberately use two separate banks just as a matter of policy. I should clarify the point that the type of thing that is perhaps by innuendo inferred is that, for example, the Bank of Western Canada would put money on deposit with a bank on the understanding that that bank in turn would loan it to us. That was not involved in any of these credit arrangements to which I have been referring. There is no understanding of that nature whatsoever.

Mr. THOMPSON: In your differences of opinion—

The CHAIRMAN: Mr. Thompson, I just want to bring to your attention the fact that 20 minutes has elapsed since you began your questioning, so I will allow you to ask this question and Mr. Stevens to answer, but then I think we should pass on to the next person on the list.

Mr. THOMPSON: In your differences of opinion with Mr. Coyne, particularly at the January and February 1 board meetings, did he at any time in your discussions state that he contemplated reporting your intended actions or the possibility of such actions—with which he took such strong disagreement—to the Inspector General of Banks, the Governor of the Bank of Canada or the Minister of Finance?

Mr. STEVENS: I cannot recall that he ever said anything like that, no.

Mr. THOMPSON: The thing that is disturbing, I think, at least to myself, is that several times you have stated that you were startled at his statement to the press and that under no circumstances had you done this, and yet Mr. Coyne's testimony is just as firm on the opposite side. There does not seem to be a coming together of these two opinions as to what really was your intention. I think we will leave it at that.

Mr. FLEMMING: Mr. Chairman, my questions are based on Mr. Coyne's statement dated February 3, and they have been partly covered by Mr. Thompson. The third paragraph of the statement refers to the connection between British International Finance and The Wellington Financial Corporation with the Bank of Western Canada, and it seems to me that that is very pertinent to this Committee. He gives three specific reasons for his resignation, I take it. Firstly, he states:

> . . .they have failed to make good their subscription for shares to the extent of about $1,500,000,. . .

I take it, Mr. Stevens, from the answer you gave Mr. Thompson that part of the funds you were endeavouring to secure in New York were going to be used for this purpose. Do you consider that you were in default of that $1½ million?

Mr. STEVENS: As Mr. Coyne mentioned, this is a rather nebulous area, I think, in that under the Bank Act they appear to contemplate that you subscribe for shares and, as was indicated, the understanding was that the shares would be paid for at a certain date, but technically there is a provision that the directors are to call the shares. There has never really been a call made and I am not too sure just what position you could say we are in, but to clarify the point, we certainly have no intention of reneging on putting in the money or in some way not completing the subscription or obligation. It is more a question, as Mr. Fulton indicated, of trying to clear the air and not getting into a position where we are simply carrying shares—which requires credit—not knowing exactly whether we are going to sell them or keep them.

Mr. FLEMMING: Then I take it you do not consider that you were in default?

Mr. STEVENS: In the very technical legal sense that is right, we would not be in default.

Mr. FLEMMING: The second point Mr. Coyne made in his statement was:

> . . .they have attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the Committees of the Senate and of the House of Commons. . .

I take it from your answer to Mr. Thompson that you refute this; you do not agree.

Mr. STEVENS: No. There is one thing that I think I should explain which I did not touch on last night. In Mr. Coyne's testimony I think he referred to two things; firstly, the fact that he understood we were considering a line of credit up to 10 per cent of capital, and I think I did touch on that last night—

Mr. FLEMMING: That was the third reason. I am only on the second.

Mr. STEVENS: Secondly, the idea of buying Consumer Finance paper from one of our companies. The matter that he was referring to there is something that has been considered, and I would have to state very definitely that if this was done it would certainly come under the Treasury Board order and it would require the consent of the Minister of Finance. There is no doubt about that and there has never been any misunderstanding that way. However, those of you who were on this Committee when I appeared a few weeks ago on behalf of the 12 trust companies will remember that we mentioned that the trust companies feel that they are at some disadvantage with respect to the making of consumer loans to their customers in that under the charter of the trust and loan companies they are unable to make such loans, but in the case of our companies we have set up a separate company called Simcoe Plan Loans, which works through the trust companies as agent.

This is something that was set up in our thinking for two purposes, and I think this is the difference between Mr. Coyne's understanding and our understanding. The first purpose was to give a better service to our trust company customers. We wanted to be able to give our customers the same consumer loan facility that they could get at the chartered banks. The second purpose was because we felt that in anticipation of the Bank of Western Canada being formed that the formation of staff and the building up of a consumer loan portfolio would give the bank a very good start when they were incorporated if they wished to buy the portfolio. This, of course, would be subject to analysis by the Consumer Loan people and to meeting their satisfaction. On this particular point Mr. Coyne's first reaction, as I recall it, was that he felt it was up to the professional bankers who would subsequently be hired as to whether they had any interest in acquiring this portfolio.

I did discuss it then with Mr. Bernard, who was hired to head the consumer loan division of the Bank of Western Canada—we intend to make consumer loans in the bank—and with Mr. Cutts, the general manager of the bank. Mr. Bernard's response was very, very enthusiastic and he turned to Mr. Cutts and said, "I hope you have first refusal on the takeover of this portfolio because it gives me a nucleus to work on immediately and indirectly it gives me the advantage of working through the trust branches in getting consumer loan activity going, which I feel will be a big advantage in running my consumer loan division as compared with having to start with just one branch and building from that point". When he said that he hoped that we had a first refusal, I remember that I smiled because I knew that Mr. Coyne's reaction to it at that point was rather negative. This was subsequently raised and, as I recall, Mr. Coyne felt that in spite of what the consumer loan man might have felt it should not be purchased from our group. This in turn is the second point to which Mr. Coyne referred. It is not a loan to us; it is simply a question of whether the portfolio would be purchased from us and that Westbank would continue to make these consumer loans through our trust companies acting as agent. Incidentally, there

is one chartered bank that is now negotiating with a trust company to do this very thing and this bank may, in turn, do the same thing through our trust companies. It was our feeling that it was too bad that our own associated bank was not taking the opportunity if this other bank felt that it was desirable business.

Mr. FLEMMING: All right, Mr. Stevens. Then you acknowledge that you were talking the matter over with the Bank of Western Canada relative to taking over a portfolio of consumer credit items, if you like?

Mr. STEVENS: That is right.

Mr. FLEMMING: What do you think of the statement by Mr. Coyne that this was:

> ...contrary to the most explicit statements made to the Committees of the Senate and the House of Commons...

Do you agree that that is justified?

Mr. STEVENS: I do not think it was contrary to—

Mr. FLEMMING: In other words, you do not agree with it?

Mr. STEVENS: I do not agree with Mr. Coyne's statement.

Mr. FLEMMING: That is what I mean. The third reason given by Mr. Coyne is that you were:

> ...presently engaged in a borrowing operation with American banks which involves the giving of an option on 10 per cent of the total shares of the Bank of Western Canada...

I think you explained this last night, but would you mind reiterating your explanation of the 10 per cent matter with the American banks.

Mr. STEVENS: Yes. Mr. Coyne is referring to our negotiations with the New York bank and, as I say, we deal with several New York banks, but the specific bank that he is referring to is the one in which a line of credit of $2½ million had been requested, and I think I read the letter last night requesting the line of credit and pointing out that it was to be jointly and severally guaranteed by British International Finance and The Wellington Financial Corporation. During the oral discussion as to whether this bank would give us the line of credit the point was raised that in view of the fact that we had discussed equity participation from time to time and, as I say, primarily in our BIF group, would it be possible to have what I referred to last night as a gentleman's agreement to the effect that if we wished to sell up to 10 per cent—which would be the legal limit, although I guess technically there is no legal limit—of the BIF group or of the Bank of Western Canada that this bank would have the first right to purchase those shares. This was agreed to through a type of gentleman's agreement. There was nothing put in writing on it. As I understand it, it was a point which raised during the oral negotiation for this loan but it was never put into written form. Subsequently the bank confirmed that the line of credit had been granted and I think it was the reference to this first refusal to which Mr. Coyne took exception. In my opinion, I can see nothing wrong with this particular bank wishing to buy the shares.

Mr. FLEMMING: Mr. Stevens, you do not agree that there was any option, is that right?

Mr. STEVENS: I do not agree that there was an option in what I—

Mr. FLEMMING: At least in the legal sense of the word.

Mr. STEVENS: In the legal sense of the word. For example, shares were not identified, price was not identified, payment date was not identified or term of option. It was simply an understanding that if we were going to sell we would offer it to them.

Mr. FLEMMING: Yes, that is quite understandable. Now, what is your comment about Mr. Coyne's statement that there were various arrangements or, in other words, that your company was:

> . . . engaged in a borrowing operation with American banks which involves the giving of an option on 10 per cent of the total shares of the Bank of Western Canada and various arrangements designed to tie the management and operations of the Bank to the operations of these American banks,. . .

What is your comment about that?

Mr. STEVENS: I do not know what he is referring to in that particular part.

Mr. FLEMMING: In other words, you deny it?

Mr. STEVENS: Certainly to the best of my knowledge there is no commitment that way at all. Is that the last—

Mr. FLEMMING: This is the latter part of the third paragraph. It reads:

> . . .and various arrangements designed to tie the management and operations of the Bank to the operations of these American banks,. . .

Now, in my opinion this is quite serious from the point of view of the Banking Committee.

Mr. STEVENS: No, I do not know what he is referring to there. Incidentally, I do not think Mr. Coyne was involved in these negotiations at all.

Mr. FLEMMING: Do you deny that there was any tie? The word "tie" is used. Do you deny that there was any tie?

Mr. STEVENS: Completely. In fact, I do not understand why the reference is there. It says:

> . . .to tie the management and operations of the Bank to the operations of these American banks,. . .

I cannot think what the reference would refer to other than the possible suggestion that if this bank had a 10 per cent interest in the bank it would mean that it would become the correspondent bank for the Bank of Western Canada in New York or the other types of arrangements which we had to make with some New York bank would be restricted to this bank.

Again, there is certainly no agreement—

Mr. FLEMMING: Was a definite tie discussed?

Mr. STEVENS: In the sense that I think Mr. Coyne means here there was definitely no tie, no sort or ironclad agreement such as if you want to do business in New York this is the bank you would have to see.

Mr. MACKASEY: Mr. Chairman, I have asked permission from Mr. Flemming to ask a supplementary question. May I refresh Mr. Stevens' memory on what

Mr. Coyne said last evening in reply to a direct question from me. Mr. Coyne said that what he objected to was the use by BIF of Western shares with American interests, not for the best interests of the Western bank but for the best interests of BIF. Would you like to comment on that?

Mr. STEVENS: Well, I feel that comment is unfair in that, as I mentioned last night, we had been dealing with these New York banks even prior to the incorporation of the Bank of Western Canada.

Mr. FLEMMING: It seems to me, Mr. Chairman, that what we are concerned about is the relationship with the Bank of Western Canada rather than BIF. BIF can borrow hundreds of millions in the United States; I do not care. The more they borrow the better I will be satisfied as far as that goes, but when certain representations are made with respect to the Bank of Western Canada, then I think it becomes a matter about which this Committee should take cognizance. The last line of the same paragraph reads:

> ... again contrary to statements made when applying for a charter.

Now, in the light of your answers, Mr. Stevens, I presume that you do not acknowledge that there was anything said at any time that was contrary to the statements which were made when the charter was applied for by yourself and Mr. Coyne?

Mr. STEVENS: Oh, no. I could not agree more with what you say, in that I do not acknowledge that there was anything done which was contrary to the statements made when applying for the charter.

Mr. FLEMMING: Do you consider that 10 per cent of the shares of a bank give it effective control?

Mr. STEVENS: Well, in this particular situation certainly not because we carry on holding 40 per cent.

Mr. FLEMMING: Mr. Stevens, I am just about finished but there are a couple of questions—

The CHAIRMAN: Mr. Flemming, the clerk has just informed me that your twenty minutes has elapsed.

Mr. FLEMMING: May I ask one more question, Mr. Chairman?

The CHAIRMAN: Perhaps you could pick the most important one.

Mr. FLEMMING: Last night Mr. Stevens was asked the name of the bank that he had been negotiating with in connection with the matter and he expressed some reluctance—and I can fully appreciate it—about divulging the name of the American bank. I do not think that bankers or individuals or companies whant their business broadcast on the front page of the newspapers all the time, so I sympathize with that point of view. Mr. Stevens, this is my question. Would you be willing to give the name of the bank to the Chairman and Vice-Chairman of this Committee privately?

Mr. STEVENS: No, I have no objection to that at all.

Mr. FLEMMING: You would have no objection to that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And we will worm it out of you.

Mr. FLEMMING: That may be the general idea, Mr. Chairman. I think I will worm it out of you.

Mr. STEVENS: The chief reason for my reluctance to mention it is exactly the reason that you have raised, Mr. Flemming. We feel that this is a very happy banking relationship as far as our group is concerned and I think it would be unfortunate if their name appeared on the front page of the paper, as you say, in something that they have absolutely no control over.

Mr. FLEMMING: Well, I do not want my name on the front page of the paper. I am sure that the banks that loan me money do not want theirs on either. Well, Mr. Chairman, thank you.

Mr. FULTON: They would be very proud of that.

The CHAIRMAN: Gentlemen, the next name on my list is Mr. Monteith. I should draw the attention of the Committee to the fact that my list at the moment reads as follows: Mr. Monteith, Mr. Lind, Mr. McLean, Mr. Cameron, Mr. Mackasey, Mr. Fulton, Mr. Sherman and Mr. Ballard. It is now seven minutes after five, and while I see no reason why we should not try to sit somewhat past six, I might suggest that the Committee consider that we should attempt to take less than the ordinary period of twenty minutes. Rather than lengthen the time perhaps we might try to reduce the period of questioning to approximately ten minutes so that we can accommodate all the members.

Mr. MONTEITH: I would be very happy to try, Mr. Chairman, but I think you might well have started the reduction at the start of the meeting.

The CHAIRMAN: Well, I think you are quite right and I am probably at fault for not realizing there would be so much interest. I should point out that when the meeting began there were only three names on my list and the other people exhibited their interest as the first three people were asking their questions. It is unfortunate there was this unusual shyness on the part of those attending this meeting, and if I had realized at the outset there was going to be this interest I would have made the suggestion earlier. However, I am sure we will be able to get along without unduly limiting anyone.

Mr. SHERMAN: Mr. Chairman, is the Committee planning to sit tomorrow morning?

The CHAIRMAN: We are planning to sit tomorrow morning but it was my impression that the Committee had decided at least tentatively yesterday evening that we would hear the Minister tomorrow morning, firstly on this Bank of Western Canada issue and then because of the urgency of the matter we would begin our hearings on the deposit insurance bill and hear from the Minister and his officials on that matter with the hope that the Committee—particularly if the minority in opposition parties are in agreement—might at the beginning of next week begin our clause by clause consideration of the banking legislation. As I said yesterday, we have to keep our primary purpose in mind at this time in our responsibility to parliament. Mr. Monteith?

Mr. MONTEITH: Mr. Chairman, I would like to continue along the line of Mr. More's questioning because I think it is most relevant at the moment to the study of the Bank Act. I am not going to ask you the name of any one particular bank, Mr. Stevens, but I am wondering if you can think of one which we can call bank

"A" and with which your group of companies has been dealing for a considerable number of years. You have not had any difficulty over those years with your lines of credit and your requirements other than the ordinary bank and client relationship?

Mr. STEVENS: Yes, that is right.

Mr. MONTEITH: This relationship continued and was still in force during the Senate hearings in 1964 concerning the formation of the Bank of Western Canada?

Mr. STEVENS: Yes.

Mr. MONTEITH: The relationship still existed in March of 1966, when you appeared before the Banking Committee of the House of Commons?

Mr. STEVENS: It had badly deteriorated.

Mr. MONTEITH: It had started to deteriorate at that time?

Mr. STEVENS: Oh, yes.

Mr. MONTEITH: Now, this is a year ago. In other words, this was last March?

Mr. STEVENS: That is right.

Mr. MONTEITH: Because, if I am not mistaken, you made statements to our Committee last March to the effect that you did not countenance a situation where you would be short of credit with your ordinary banking institutions.

Mr. STEVENS: I do not remember that precisely. I can tell you, though, that in the period to which you are referring we still had total lines—

Mr. MONTEITH: You went up to $13.9 million in 1965?

Mr. STEVENS: That is right, and in March of 1966 we had approximately $1.5 million.

Mr. MONTEITH: Right at the moment you are less than $150,000?

Mr. STEVENS: That is right.

Mr. MONTEITH: Now, let us get back to bank "A", whom you had been dealing with for a number of years. As of the date of the Senate hearings in 1964 there had been no deterioration in your situation, although you now say that in March of 1966 there was some deterioration?

Mr. STEVENS: Yes, in the sense—was that in March of 1964?

The CHAIRMAN: March of 1964 was the date of the Senate Banking Committee proceedings, when you made your initial application.

Mr. STEVENS: During that period our credit with the banks ranged from somewhere around $2 million to a high point in October of $5 million. The point I was making, Mr. Monteith, was that the credit facility that we had from some of these banks was quite extensive in relation to the size of our net worth and total assets, but as our size and total assets and net worth grew, the credit facility diminished.

Mr. MONTEITH: Did it diminish from a percentage standpoint or just diminish in volume?

Mr. STEVENS: It diminished both ways, with the exception of the fact that during the middle part of 1965, we shot up, which was partly due to this special

deal that I have referred to, but there had been a general lessening of the credit facility over that period which was aggravated by the tight money situation that came in, I think, in the middle of 1965.

Mr. MONTEITH: Have you tried to get accommodation, over and above the figure of approximately $150,000 which you have now, with the Canadian banks in the last year which has been definitely refused?

Mr. STEVENS: Yes. Definitely refused.

Mr. MONTEITH: Definitely refused. On good security?

Mr. STEVENS: Yes. In fact, I would think on unquestioned security.

Mr. MONTEITH: And were you told that the reason was your connection with the Bank of Western Canada?

Mr. STEVENS: You are referring to bank "A"?

Mr. MONTEITH: Yes.

Mr. STEVENS: Yes, I learned from two sources that the bank complicated our previous banking relationship in the minds of the senior executives of bank "A" and that it was an influence in our banking relationship.

Mr. MONTEITH: I was of the opinion that when we were hearing your application before the Finance, Trade and Economic Affairs Committee of the House of Commons last March that evidence was given to the effect that your banking arrangements were sufficient so that you would never have to consider borrowing money from the Bank of Western Canada. Could this over-all statement have included your borrowing powers in the United States and in Britain?

Mr. STEVENS: No. I think at that time we were thinking more with respect to Canadian banks, but it was also during that period that we started to cultivate the American and British lines. I felt, realizing that our Canadian lines could diminish for one reason or another, that we were only prudent in developing outside lines.

Mr. MONTEITH: Well, do you feel the fact that you were interested in the Bank of Western Canada very definitely and concretely had the affect of limiting your credit with any Canadian bank?

Mr. STEVENS: I think it had an influence and, as I mentioned, in relation to your bank "A" I was told that they started to refer to our account as a pre-bank account, meaning that—

Mr. MONTEITH: Pre-bank of Western Canada?

Mr. STEVENS: Yes, that is right. From another source in the same bank I learned about two years ago, I think, that our file, what they call a history file, made a notation of the Bank of Western Canada and referred to the fact that we were proposing to be a banking institution.

Mr. MONTEITH: How long had you dealt with bank "A"?

Mr. STEVENS: I would think over five years anyway. BIF was formed in 1960 and I think it would be fairly soon thereafter that we started to deal with this bank.

Mr. MONTEITH: In the arrangement you had which cost you a total of 8 per cent back in 1965, which Mr. More also referred to, I am assuming the effective rate of interest would be 6 per cent, but the supplementary factor being able to buy back these securities, and so on, meant an effective rate of 8 per cent?

Mr. STEVENS: No. The way the deal was worked was that we were asked to sell the securities to the bank to give them on the coupon an effective 7 per cent return. In the event that we wished to buy them back, we bought them back at a price that in effect raised the rate to 8 per cent. In other words, they bought securities to yield themselves 7 per cent and if we bought them back they got an effective rate of 8 per cent.

Mr. MONTEITH: On the U.S. accommodation which you have recently arranged, I think you said in your letter that you were enclosing two cheques, one for $5,000 and one for $10,000. Were these simply to open accounts? They were not considered to be compensating balances in any manner?

Mr. STEVENS: No. In fact, the line of credit had a term of six months with the understanding that it would roll for a further six months and the rate was 6¾ per cent with no free balance required.

Mr. MONTEITH: I think that is all at the moment, Mr. Chairman.

Mr. LIND: Mr. Stevens, did I hear you say in answer to Mr. Monteith that British International Finance (Canada) Limited was first formed in 1960?

Mr. STEVENS: I think that is right.

Mr. LIND: That was when you originated. From 1960 to 1965 you built a line of credit accommodation with the banks up to $5 million?

Mr. STEVENS: Well, it jumped up and down. On one specific deal I remember we were able to have a line of $12 million, and that was in 1963. On one specific deal bank "A" gave us a credit of $12 million. Certainly during that period we felt we enjoyed excellent banking accommodation.

Mr. LIND: When you started British International Finance (Canada) Limited did you take finance notes, or of what was your paper composed?

Mr. STEVENS: No. British International Finance has never been in the finance paper business, the consumer loans. It is a name that conveys that impression but it has never been active in the consumer loan field.

Mr. LIND: Then following along, you said last night that you were up to $5 million and then you went down to $1.5 million. Did that happen at the time of the collapse of Atlantic Acceptance Corporation?

Mr. STEVENS: No, not really. During 1964 the high point was about $5 million. At the beginning of 1965 that fell off at one time to as low as $1.1 million. These volumes fluctuate. Then it went up to $3.9 million, and then worked its way up to the high point of $13.9 million and then it came down. For example, in January of 1966 it was $2 million and has gone steadily down from that point to less than $150,000. Speaking of this $150,000, the bank would like that paid.

Mr. LIND: Now, this high of $13.9 million, was that all with bank "A" or with Canadian banks?

Mr. STEVENS: I am afraid I missed that.

Mr. LIND: Was the $13.9 million all with Canadian banks.

Mr. STEVENS: Oh, yes. There were no American banks involved there.

Mr. LIND: When did they cut this $13.9 million back? Was it after you received your approval from the Treasury Board?

Mr. STEVENS: No. That was reduced in December of 1965.

Mr. LIND: They reduced it in December of 1965. Was there any finance paper involved at any time in this line of credit?

Mr. STEVENS: There is one line of credit that does involve finance paper but it is a relatively small line which has always been run with the Mercantile Bank in connection with the Simcoe Plan loans that I referred to, and that, incidentally is a line of credit with which we have not had any particular difficulty. It is very much to our satisfaction.

Mr. LIND: If I remember correctly, yesterday Mr. Coyne mentioned a $700,000 line of credit that he was asked for by the BIF group from the Bank of Western Canada. Was there any finance paper involved in this?

Mr. STEVENS: No.

Mr. LIND: At no time was there any finance paper involved in the credit asked for from the Bank of Western Canada?

Mr. STEVENS: I am a little confused, I think, about your reference. The only finance paper that we have in our group are the Simcoe Plan loans that I referred to and that is a separate company that has a portfolio of, I think, $800,000 or $900,000. That portfolio is financed mainly by our equities, but we do have a line of credit involved with that paper with the Mercantile Bank. As I say, that line of credit has never given us any particular trouble but that portfolio, to perhaps clarify what you are referring to, was the portfolio of $800,000 or $900,000 that we discussed selling to the Bank of Western Canada, with a view to giving the bank the nucleus business and then allowing them to carry on in the same method as we are presently employing.

Mr. LIND: May I ask if all this paper is in good shape and not too much in arrears?

Mr. STEVENS: It is good stock.

Mr. LIND: Then why would the Bank of Western Canada refuse this? There is no doubt you are probably putting up 10 or 20 per cent extra to cover this line of credit.

Mr. STEVENS: No, I cannot understand why the Bank of Western Canada would refuse to buy it and, in fact, it could well be that it will be sold to another bank.

Mr. LIND: Was this one of the points that you and Mr. Coyne had a difference of opinion upon?

Mr. STEVENS: I think he had a different opinion on it in two ways. First of all, the fact that it was a BIF asset, I do not think he liked that feeling and, in the second place, the eastern connection, the fact that the loans were made

in the east. On that particular point we mentioned that we felt that sufficient deposits could be generated in the east to certainly cover any moneys that were involved and, for that matter, if they wished they could always take over the portfolio and allow it to run down. Meanwhile, they could use the nucleus to cover their overhead and staff salaries. In other words, when you start with a consumer loan division in a Bank or in any other place you need approximately $800,000 or $900,000 to cover the overhead of the staff that you require from the day you open your door. The advantage is that you have these loans that you can give them to work on and it is immediately at least a break-even proposition.

The CHAIRMAN: Mr. Lind, I think I should interrupt you at this time in line with my suggestion that we restrict somewhat the ordinary period of questioning. I believe, according to the note made by the Clerk, you started shortly after ten past five, so perhaps I could recognize Dr. McLean at this time.

Mr. LIND: Well now, wait a minute. Are we not still getting twenty minutes each? I did not hear anything about this.

The CHAIRMAN: Just before Mr. Monteith began his questioning I brought to the attention of the Committee the fact that we had quite an extensive list and rather limited time. Last night the Committee in effect appeared to agree that we would have the Minister before us tomorrow, and with the extensive list before us today that perhaps we would limit our period of questioning to a time less than the ordinary twenty minutes.

Mr. LIND: Well, I did not understand that, Mr. Chairman. You let others go on a little longer.

The CHAIRMAN: I also attempted to limit Mr. Monteith but he was kind enought to moderate his questions and although I cannot see what he has written down, I can see he has some extensive notes which I am sure he would have used as the basis for questions if time had permitted. In any event, if I did recognize you at ten after five, it is now five thirty, and I do not claim to be too strong in mathematics but it would appear that you have had just about twenty minutes anyway.

Mr. LIND: May I ask one more question on a different subject?

The CHAIRMAN: Mr. Monteith would then have a legitimate complaint that I did not permit him to operate in the same way. As I say, I could have been criticized by him already for being somewhat lax in departing from my own suggestion that we try to limit our questions to the area of ten minutes. It is just about five thirty now.

Mr. LIND: Well when will we have a chance to question Mr. Stevens further?

The CHAIRMAN: Well, that will be a decision for the Committee as to how long we want to go today and if we want to have these gentlemen back another time. Perhaps I could recognize Mr. McLean at this time.

Mr. MCLEAN (*Charlotte*): Well, Mr. Chairman and Mr. Stevens, I do not have very many questions. I was rather intrigued to hear Mr. Stevens say that he was not getting the proper treatment from our Canadian banks. In my long banking experience I have never experienced anything like that. You say, Mr. Stevens, that you had borrowed $13 million at one time in Canada and you have

reduced it to $150,000 at the present time. Was that $13 million in loans transferred to the American banks? Did you get the $13 million from the American banks to pay the $13 million off?

Mr. STEVENS: No, it was retired largely by ourselves through the generation of deposit money in our own trust on loan operations.

Mr. MCLEAN (*Charlotte*): Well then, you really brought it down through cash flow?

Mr. STEVENS: Yes.

Mr. MCLEAN (*Charlotte*): You have stated again and again that the trouble between you and Mr. Coyne was on policy. The policy of Mr. Coyne would be that of the professional banker and he would want to carry on banking on professional lines. Was this a policy with which you disagreed?

Mr. STEVENS: Well, I guess it depends on how you define professional banking. I would say that the disagreement certainly was not on the question of professional banking in that we have pushed very strongly to have senior high level banking executives hired to run the bank. Now, Mr. Coyne has indicated—and certainly this is not recorded in the minutes—that as president of the bank he feels that he should be regarded as a part-time president who, in effect, intercedes between the general manager and the board of directors, but not a full-time operating head of the bank. Well now, from our standpoint I believe Mr. Coyne did refer to the fact that Mr. Bell had raised the point that he thought that a more senior banking executive should perhaps be hired.

Mr. MCLEAN (*Charlotte*): You want to replace Mr. Coyne?

Mr. STEVENS: No, not necessarily, because banks have very convenient titles; for example, they have chief general managers and general managers. A chief general manager would be somebody that would be senior to a general manager but not senior to the president.

Mr. MCLEAN (*Charlotte*): Well, it is on policy that you disagree?

Mr. STEVENS: Yes. On questions of policy there is certainly no suggestion on our side that we want to do anything of a reckless or unsound nature. It is more a question of the type of banking that is going to be carried on and we feel that the bank should not become a relatively savings type operation or almost like an investment trust type of an operation, but it should be an aggressive, worthwhile commercial bank. We have advanced the thought that the unit banking concept is a good concept and could play a tremendous role in certain of these western Canadian cities.

Mr. MCLEAN (*Charlotte*): Your answers are so long, Mr. Stevens, that they get me confused.

Mr. STEVENS: I am sorry.

Mr. MCLEAN (*Charlotte*): They certainly take up the time. Now, you have stated that you were willing to sell 10 per cent. Does that mean 10 per cent of the total capitalization or does it mean 20 per cent of your shares?

Mr. STEVENS: Twenty per cent of our shares.

Mr. McLEAN (*Charlotte*): You were going to dispose of 20 per cent of your shares to an American bank, although you told this committee that you had taken every precaution against doing this?

Mr. STEVENS: I think you are referring to the reference to the formation of the bank and we pointed out—

Mr. McLEAN (*Charlotte*): I read a little while ago that you were taking every precaution that shares would not fall into American hands or into American banks or into the hands of foreigners, and yet you were willing to dispose—

The CHAIRMAN: What is your reference, Dr. McLean?

Mr. McLEAN (*Charlotte*): I beg your pardon?

The CHAIRMAN: What are you referring to specifically?

Mr. McLEAN (*Charlotte*): Well, it is in the record here somewhere.

Mr. STEVENS: If I can recall that, Dr. McLean, properly—

Mr. McLEAN (*Charlotte*): It says:

> ...we took special precautions to meet the argument that a new bank might fall under the domination...

The CHAIRMAN: You appear to be quoting from the initial statement of Mr. Coyne in the March 1 hearings—

Mr. McLEAN (*Charlotte*): That is right, but they were both hand in hand at that time.

The CHAIRMAN: That is right.

Mr. McLEAN (*Charlotte*): So now you are willing to dispose of 20 per cent of your shares?

Mr. STEVENS: Yes. Well, if I could just clarify that. I think the history—

Mr. McLEAN (*Charlotte*): No, I just wanted to know if you were, that is all.

The CHAIRMAN: Mr. McLean, your quotation was part of an entire paragraph.

Mr. McLEAN (*Charlotte*): This was a general statement, but it is a statement that was made before the committee.

Mr. STEVENS: Yes. Well, if I could clarify it. This went through, I think, three stages. In the initial solicitation of subscribers for the bank we had a 100 per cent prohibition against any non-resident participation. Now, this was in anticipation of not knowing what the new Bank Act would actually provide for. The revision of the Bank Act, as it first came in, allowed for a 25 per cent participation. We proposed that in our original bill and that got cut down to 10 per cent, at the suggestion of Mr. Lambert, I believe, at the committee hearing.

Mr. McLEAN (*Charlotte*): I think you stated that you had 14,000 shareholders, and of that 14,000 you only had 29 non-resident. Does that still stand, 29 non-resident and 14,000 shareholders?

Mr. STEVENS: I cannot tell you specifically but I can tell you generally that there has certainly been no large non-resident buying.

Mr. McLean (*Charlotte*): Now, with reference to your allegation that the banks were not treating you right. In respect to this $13 million that you had borrowed you named six banks. Does that $13 million cover the six banks?

Mr. Stevens: No, that includes four of the banks.

Mr. McLean (*Charlotte*): Four banks, so I am two out. I do not know, but probably the Mercantile and National are out.

Mr. Stevens: No, the Mercantile is in there.

Mr. McLean (*Charlotte*): The Mercantile is still in and the National is out.

Mr. Stevens: The National is out.

Mr. McLean (*Charlotte*): Now, with respect to this hook-up with the American bank, would that be that the American bank would participate with the Bank of Western Canada in purchasing this consumer paper? Was there anything like that in your mind when you went down there.

Mr. Stevens: No.

Mr. McLean (*Charlotte*): Well what was in your mind when you went to these American banks, because a Canadian bank generally has an agent or somebody in New York on the other side.

Mr. Stevens: That is the easiest relationship. You mean a correspondent relationship?

Mr. McLean (*Charlotte*): Correspondent yes.

Mr. Stevens: Yes. Well, that is certainly one step but you can develop your association far beyond that point, and what we would like to do is to take advantage of the fact that some of these American banks would like to participate in Canadian bank loans, and if we can cultivate that kind of business it means that instead of only loaning our own funds we would have many further millions of dollars that could be loaned, especially in western Canada.

Mr. McLean (*Charlotte*): I think you said that an American bank came up to Toronto and they could not get participation by a Canadian bank for 25 per cent of the loan. Now, was this what you had in mind, that ten American banks would came up here and they would get loans and the Bank of Western Canada would be a participant in those loans? Is that the policy that you and Mr. Coyne disagreed on?

Mr. Stevens: The Bank of Western Canada would have what I think they call the carriage of the loan. They would process it and be able to deal with the customer, but the loan in turn would be shared by one or more other banks, which is a procedure that is very customary in the United States.

Mr. McLean (*Charlotte*): You have in mind more or less adopting the American usage, or whatever it was, is that it?

Mr. Stevens: That would be right. Now, there is at least one other Canadian bank that has indicated an interest in doing this with us too.

Mr. McLean (*Charlotte*): But was this the policy that and Mr. Coyne disagreed on?

Mr. Stevens: When you say disagreement, I do not know that Mr. Coyne was exactly opposed to it. It is more a difference of emphasis. For instance, he

has emphasized more the idea of raising deposit money in Winnipeg for example, and loaning the deposit money out to the Winnipeg people. Well, we feel that, of course, is one function but we would like to do more than that in order to get the bank up to a more substantial institution.

Mr. McLEAN (*Charlotte*): Now, you have blamed the Canadian banks for not making loans to you, and I quoted Mr. Towers when he spoke to the Canada Life Assurance Company last year, and in January he spoke again and he said:

> the efforts of some industrial countries to overcome their international deficits and of others to combat domestic inflation have naturally had world wide repercussions. One by-product of the relative scarcity of loanable funds and high rates of interest is to put weaker borrowers in a precarious and sometimes untenable position. Such a situation usually brings to life a deterioration in the quality of credit to which I referred at our meeting last year.

Now, would you not say that it was this that caused the Canadian banks not to grant you credit rather than your association with the Western Bank?

Mr. STEVENS: I certainly do not feel that that would be the paramount reason, because the type of situation that I am referring to is where security, of either a Government of Canada nature or a Government of Canada agency guarantee type of security could be given. Security in the sense that you are referring to there would be unquestioned.

Mr. McLEAN (*Charlotte*): But this world situation of deterioration of credit, is that not something that has a bearing on your case?

Mr. STEVENS: If you mean the deterioration of credit in the sense of tight money, I would certainly have to agree with that.

The CHAIRMAN: Dr. McLean, I think perhaps at this time we should grant the floor to Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Stevens, as I am sure you are well aware by now, one of the complaints—I will not use the word "charge"—made by Mr. Coyne, which is set out in the memorandum he provided, is that they, meaning you and your associates in the BIF group, have:

> ...attempted to get the Bank to provide credit to their own companies contrary to the most explicit statements made to the committees of the Senate and of the House of Commons.

Now, did I understand you correctly when you said that was not strictly correct?

Mr. STEVENS: That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Now, this afternoon you spoke of two meetings and I would like to get this clear. You spoke of a meeting between you and your associates on December 13, which I think was a meeting of the BIF board, is that right?

Mr. STEVENS: What date was that again?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): December 13.

Mr. STEVENS: No, no, that was just an informal meeting of the people that I mentioned.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I see. It was not a board meeting?

Mr. STEVENS: No, no, it was not a board meeting, just a discussion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then there was a meeting of the board of directors of the Bank of Western Canada on December 16?

Mr. STEVENS: That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And at that meeting, you told us this afternoon, you raised the question of meeting the Minister of Finance and getting him to clarify the situation with regard to borrowing. Now, would I be right in assuming that when you used the word "clarify" you really meant to meet the Minister of Finance and see whether or not he was prepared to exercise the discretionary powers which he has under 2.(1)(f) of the Treasury Board minute? You wanted to have them approach the Minister to see if he would exercise that power, is that right? That is what you meant by "clarify"?

Mr. STEVENS: By "clarify" we meant that we would like to understand better under what circumstances, if any, would consent be granted to do any one of these items. The easiest example would be the one I mentioned, where Fort Garry Trust presently have their clearing arrangements with a branch of one of the Winnipeg banks. Well now, strictly speaking, under this wording I do not think that we could shift that account to the Bank of Western Canada in spite of the fact it is not a borrowing account. So, what we were hoping to determine was just what relationship would the Minister consent to, if any, with respect to our group companies, but there were no loan amounts discussed or there were no propositions put forward in the sense of saying that we want to apply for a $500,000 line of credit. Now, the reference to the 10 per cent of capital was simply a reference to what is the practice in the United States. Unlike Canada, where there is no limit on what a Canadian bank can lend to any concern, in the United States the legal limit on a loan is 10 per cent to any one concern.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I gathered from your remarks this afternoon that your suggestions of getting the Minister to clarify the position arose in the context of a discussion of a situation in which your group of companies found themselves due to the curtailment of your line of credit with the chartered banks. Is that not correct?

Mr. STEVENS: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Then, can we assume anything else than that you had in mind asking the Minister if he was prepared to exercise his authority here in order to overcome your difficulties?

Mr. STEVENS: I do not think that was the inference in the sense that we genuinely wanted clarification on the point. Now, if the Minister came back and stated—and I think this is possibly what you are referring to—that he could see no objection to some kind of a rule of thumb that as long as we did not borrow over a certain limit in the aggregate that it would be acceptable to him, I think that would have generally surprised us in the sense that we would not have contemplated the Minister saying that, although it possibly would have been the reaction that he would have had. But, more specifically, we were in the position where we felt we had almost the worst of both worlds in that the Canadian

banks for their own good reasons—be it the Bank of Western Canada or otherwise—were not giving us the accommodation that we had once enjoyed and our own bank was shut off from us. The only access that we had was, possibly, to foreign banks and in reviewing the whole situation it seemed to be a very natural thing to say: "The specific prohibitions should be clarified so that we can understand." For example, can any of our trust companies have dealings with the Bank of Western Canada, of even a clearing nature? The important point I am trying to make, Mr. Cameron, is that nothing of a specific nature was advanced in the sense of saying that we intended to go to the Minister and ask for a specific approval for a line of credit, or something like that. It was more to get clarification. The simple plan loan matter though, if it had been proceeded with, would have been something to present to the Minister as a definite proposal: Had he any objection to our purchasing—and "our" being the Bank of Western Canada—those assets?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I really do not see what clarification you required. It is set out here quite plainly that the bank:

> —shall not, directly or indirectly, except with the prior approval of the Minister of Finance,
>
> (i) make a loan or advance to or deposit with,
>
> (ii) guarantee a loan or advance to or deposit with,
>
> (iii) purchase the securities or shares of, or make a loan or advance on the securities or shares of,
>
> (iv) purchase any assets from, or
>
> (v) assume any liabilities of,
>
> any of the preferred subscribers whether or not they are then shareholders of the Bank.

Now, it seems to me that is quite clear and the only thing you could get the Minister. It did not need any clarification, did it? He had the power to do these me you could not have had any other purpose in suggesting approaching the Minister. It did not need any clarification, did it? He had the power to do these things and it was one or other of these things you wanted him to do, I gather.

Mr. STEVENS: I do not know whether we are turning on words but the simple fact—and I think this was raised yesterday—is why were the words "—except with the prior approval of the Minister of Finance" put in?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I have not a clue; I wondered myself why they were put in.

Mr. STEVENS: I would think it is reasonable—speaking as a BIF person—to say that I should inquire from the Minister under what circumstances would he give approval.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, I think it is quite reasonable. So, therefore, this was your purpose in going to the Minister—to find out if he would be prepared to do it? I am not suggesting there is anything wrong in doing that.

Mr. STEVENS: If he would be prepared to do something, but we did not intend to put anything specifically before him other than in a discussion sense.

For example, the Simcoe plan—If he had felt that was a deal which would be acceptable to the Bank of Western Canada we could have talked specifically about that.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You would hope that you would reach some conclusion with the Minister that he would agree to exercise the power to exempt you from one or other of these provisions.

Mr. STEVENS: What we were really looking for were guidelines; what was contemplated in the clause: "—except with the prior approval of the Minister of Finance."

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Stevens, tell me this: If you had had your meeting with the Minister and had succeeded in persuading him that the situation was such that he should exercise his discretion and permit the Bank of Western Canada either to make a loan or an advance—or all the various other things which are outlined here—to your companies, would you consider, as Mr. Coyne suggests, that was contrary to the most explicit statements made to the committees of the Senate and the House of Commons?

Mr. STEVENS: No, I do not feel so.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I quote some of your own evidence to you, Mr. Stevens, from March 8, 1966, in which you were answering Mr. Horner, the member for Acadia, and you had this to say on page 171:

> The other point I would like to mention, Mr. Horner, in connection with your suggestion that there may be some interrelationship between our other trust companies and the Bank of Western Canada, is this—I think, as was mentioned in evidence earlier, there certainly is no proposal or suggestion in our mind that the Bank of Western Canada, in fact, would become the banker to the group. I can assure you this will not happen.
>
> Mr. HORNER (*Acadia*): Well, why would it not happen? What guarantee or assurance can you give us that it will not happen?

And this is your reply, Mr. Stevens.

> Mr. STEVENS: I would say one of the very obvious reasons is that we need banking connections in our group. The Bank of Western Canada is not one which would be of help to us. As I mentioned, we deal presently with six of the eight chartered banks in Canada, and we wish to keep this relationship established—

and you mention a number of the banks—

> —is a valuable one for any group to maintain, and the fact we would have a bank in the west would in no way mean that we would try or, indeed, want to sever our present relationship with existing banks.
>
> Mr. HORNER (*Acadia*): You mentioned that you dealt with six of the eight banks; do you mean that you borrow money from six of the eight present banks?
>
> Mr. STEVENS: We are not borrowing from very many now. By dealing with them, I mean they handle our clearing privileges or our general

accounts, and I would say at the present time we certainly have much more money on deposit with the existing banks.

Mr. HORNER (*Acadia*): But, that is because of this $13 million.

Mr. STEVENS: No; we have more money on deposit with existing banks than we borrow from them and our borrowings from existing banks are quite small.

Now, Mr. Stevens, if that was the case in March, 1966, why have you now reached the position where, because the banks insist on keeping your borrowings quite small, you have to consider approaching the Minister of Finance. What change has taken place?

Mr. STEVENS: No change. In fact, the statement that you have just read, I would say, is still the position we are in. We in no way want the Bank of Western Canada to become "banker to the group". To say, "banker to the group" would mean that the Bank of Western Canada would be our main banker. But, on the other hand, I think it is reasonable to say that while we want to maintain banking relationships with as many banks in Canada as possible, is it not at least possible to use your own bank—the bank you are associated with—if the Minister has no objection? For example, the matter of clearing, to me, is the clearest example. It seems odd, if you have no loan requirement, that as far as your clearing arrangement in Fort Garry Trust is concerned you continue to give the benefit of that business to a competing bank instead of your own bank in the same city. It was that type of thing which we wanted clarified.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): What did you mean when you said: "The Bank of Western Canada is not one which would be of help to us."

Mr. STEVENS: I think that also is a reference to the point that Mr. Coyne had touched on in his testimony. It would not be of help to us in the size of loans that the bank could make if there were no restriction. In other words, when we are discussing the size of loans that we have been talking about today—up to $13 million, or $5 million and this type of thing—the Bank of Western Canada could never prudently handle that type of loan.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you define for me what you meant when you said: "—our borrowings from existing banks are quite small."

Mr. STEVENS: I will just tell you how much they were at that date, which was March 8, 1966. The total borrowings of our group on that date were $1.4 million and our total assets were probably about $110 million to $120 million at that time.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Subsequent to the time when you gave this evidence your borrowing from the banks increased sharply?

Mr. STEVENS: Oh, no, they went down.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: They went down?

Mr. STEVENS: Oh, yes. You see, this is last year's figure—almost a year ago. I will tell you how they have gone down. In March they were $1,461,000; they

went down to $1,300,000 the following month; by October they were down to $628,000 and, as I say, they have continued to fall until now they are something below $150,000.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Well, then, Mr. Stevens, in the light of that would you explain to me again why, according to your evidence, the fact that the chartered banks were curtailing your loans made it necessary in that context to consider—and I think there is no question about it; you admit it yourself—the possibility that the Minister of Finance would give his approval to giving you exemptions from section 2 (1) (f) of the Treasury Board minute of August 3. It does not seem to track somehow. You are telling me that you, yourself, or somebody, reduced your loans in the banks very sharply. . .

Mr. STEVENS: That is correct.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): . . . between this date—March, 8, 1966,—and the present date, or the time on December 16 when the question of approaching the Minister came up. I still fail to understand how your situation on December 16 made it desirable for you to bring up the question of approaching the Minister of Finance, because it was in the context of not having sufficient bank accommodation that you brought it up.

Mr. STEVENS: I would suggest that we wanted clarification concerning the Treasury Board provision in two respects. One was in the general sense of under what circumstances would the Minister of Finance consent to any one of those deals. But there was no specific loan nor any specific accommodation in mind. The second possible reason that we would go to the Minister of Finance would be on the Simcoe plan purchase of assets. In other words, if the bank officials said that they were interested in purchasing assets we would then have to go to the Minister and say: "Is this the type of thing that was contemplated under section (f)?"

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not see why you would have to do that. It says perfectly plainly in subparagraph (IV):

> purchase any assets from—

It is already set out.

Mr. STEVENS: No, what I mean is that if we went with the Simcoe plan proposal is that the type of thing the Minister would consent to?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Would you again explain to me why you thought it might be necessary to get the Minister to assent if, according to your own evidence, you, yourself had sharply reduced your borrowings from the banks from a time when you said: "our borrowings from existing banks are quite small"? Then, apparently, you made them even smaller.

Mr. STEVENS: No, we did not necessarily make them smaller. I think, perhaps, I can answer your question in this way, Mr. Cameron, You have a portfolio of consumer loans in Simcoe. This is an $800,000 or $900,000 portfolio. Before that could be sold into the Bank of Western Canada it would, first of all, have to be reviewed by the consumer loan people and an agreement reached on price, terms and this type of thing, but before any deal could be consummated under the provisions of this Treasury Board order, we would have to go to the

Minister of Finance and ask for his consent. This is what we were discussing; the fact that the consent contemplated here presumably has to be clarified. For instance, you might go to the Minister with this type of proposition and he would say no, that is not what we had in mind.

The CHAIRMAN: Mr. Cameron, I think perhaps we should give the floor to Mr. Mackasey, followed by Mr. Fulton.

Mr. MACKASEY: Mr. Stevens, on what date were you going to approach the Minister for clarification?

Mr. STEVENS: No date was set.

Mr. MACKASEY: Have you ever approached the Minister?

Mr. STEVENS: No.

Mr. MACKASEY: You never went through with it.

Mr. STEVENS: No.

Mr. MACKASEY: Are you aware of the date on which this regulation of Treasury Board was set down?

Mr. STEVENS: It was August 3, 1966.

Mr. MACKASEY: Why did you wait so long for clarification?

Mr. STEVENS: That is a good question. As far as we were concerned, the first time this came up was in either late November or early December, in the general discussions of our relationship to the Bank of Western Canada. The point was raised that there seemed to be some provision here to allow certain transactions and it was then that we started our discussion of whether we should get clarification.

Mr. MACKASEY: Could I submit, Mr. Stevens, that somewhere along the line your normal source of credit was cut off, or reduced to $150,000? Surely this must have curtailed your general operations?

Mr. STEVENS: As far as the Canadian banks were concerned—

Mr. MACKASEY: I apologize for interrupting, but I am trying to put a lot of questions in ten minutes. Am I right in saying that very recently—certainly since March 1966—your normal source of credit in Canada has been reduced substantially?

Mr. STEVENS: Yes, that is correct.

Mr. MACKASEY: Mr. Coyne was a director of the BIF group at that time. Was he not also aware of this?

Mr. STEVENS: Yes completely.

Mr. MACKASEY: Had you convinced Mr. Coyne that it was a legitimate argument that the chartered banks were cutting down your credit in Canada because of the western bank, what do you think Mr. Coyne's reaction would have been? Do you think it would have been one of silence? Is this the pattern he is noted for? Or would he not have hollered at this type of discrimination?

Mr. STEVENS: There were various discussions of a private nature.

Mr. MACKASEY: With Mr. Coyne?

Mr. STEVENS: Yes.

Mr. MACKASEY: And you made him aware that you felt that your relationship with the western bank, was the cause of the curtailment of credit to the BIF group?

Mr. STEVENS: Yes, this came up at several meetings.

Mr. MACKASEY: Did Mr. Coyne agree with your definition of the problems?

Mr. STEVENS: I could not say categorically that he did agree.

Mr. MACKASEY: Well he must have expressed an opinion either that you were being discriminated against—and what did he do about it as a director—or you were not being discriminated against.

Mr. STEVENS: I cannot say definitely whether he agreed. I think he agreed that it was an influence. You are in a nebulous field; I do not think that anybody, including myself, could say that was the only reason.

Mr. MACKASEY: Last night you did paint a rather glowing picture of American banks' willingness to finance, as you mentioned, in the west, the mid-west and so forth. If this were true, then why did you find it necessary to contemplate approaching Mr. Sharp to find ways and means of obtaining finance from the western bank?

Mr. STEVENS: As I mentioned, this largely turns on the question of the Simcoe plan loan portfolio and what other accommodations, such as this clearing facility, the minister would consent to.

Mr. MACKASEY: Last night you mentioned several times that you had several meetings fairly recently—I think as late as December—to construct the policy of your bank. It seems odd to me, not being a banker or even a lawyer, that you have got this far for over two years without determining the policy of the bank. Has the original policy of the bank changed? Is this really what you meant?

Mr. STEVENS: I would not say so. I think this was partly due to a greater division between Mr. Coyne's thinking and our thinking than we originally thought existed. It was a kind of gap that seemed to grow over these latter months. Certainly, we pressed many times to try to get policy much more definitive.

Mr. MACKASEY: I have just two more questions. I know Mr. Fulton also has some questions to ask.

I will now come back to the sale and repurchase technique because I intend to speak to Mr. Sharp about it tomorrow when he is here. I gather it differs, in a sense, from the normal banking practice in that you sell outright, at least temporarily, certain assets to the bank. Am I right?

Mr. STEVENS: Yes, that it right.

Mr. MACKASEY: Are there any provisions in this loan for an expiry date by which you can buy these assets back?

Mr. STEVENS: Yes.

Mr. MACKASEY: Do you have assets at the present moment in this particular circumstance?

Mr. STEVENS: With a chartered bank?

Mr. MACKASEY: Yes.

Mr. STEVENS: No.

Mr. MACKASEY: So you did exercise your option to buy back these particular assets.

Mr. STEVENS: That is correct.

Mr. MACKASEY: Mr. Coyne stated in his evidence and I am only going by memory—that he was first informed by someone at the meeting of February 1—I use someone because I do not know who that person is—that shares belonging to the BIF group had been pledged—that is his word—to American banking institutions in return for financial assistance to the BIF group.

Mr. STEVENS: First of all I would have to clarify that there was no pledging of the bank shares required at all. The only relationship was one of giving us first refusal. When Mr. Coyne says that he first heard of it on February 1 I do not deny that may be so, but to the best of my recollection there was also a very casual discussion concerning any American participation following a Lambton Loan and Investment Company board meeting in Sarnia. I mentioned to Mr. Coyne that I had been talking to some banks and there was a possibility of an equity participation and I asked him whether there was any particular objection. I do not want to emphasize the point too much because I did not bring it up in a decisive way, but I did think that Mr. Coyne, judging from his reaction, had no objection provided it was within the 10 per cent limit.

Mr. MACKASEY: I would like to make my own point clear, Mr. Stevens. As long as your charter does include the provision of 10 per cent of the shares eventually getting into American hands, I think the battle between you and Mr. Coyne as to how they get there, either by selling 20 per cent of yours or some other way, is strictly an internal matter which is only a matter of interest to us.

I would like to come back just for a second to this loan and repurchase action. You did complete the cycle, but what concers me here a little if other people are using this technique, is that once you sell these assets to a bank and something happens to the trust group or another group, such as a bankruptcy or something, are these assets not detached from the general assets of this particular group?

Mr. STEVENS: Well, you have cash in lieu of this.

Mr. MACKASEY: Yes, you have, but I do not want to use you because I do not want to create any false impressions. Let us say group A approaches a bank with this type of sale and repurchase technique—and perhaps our Bank Act should prevent this. You receive cash and in return you turn over assets to the bank. If something happens to group A before they have had a chance to redeem them at this premium interest, what happens to the general over-all balance sheet of the group that has gone into bankruptcy? In other words, has not the bank now assumed a preferred position as far as these assets are concerned?

Mr. STEVENS: No. They have bought the assets—

Mr. MACKASEY: Some of the assets.

Mr. STEVENS: —and given cash. If the bankrupt company went under—

Mr. MACKASEY: You would hope the cash is still there for the general creditors.

Mr. STEVENS: That is right.

The CHAIRMAN: Have you completed your questioning?

Mr. MACKASEY: I would like to say I have, Mr. Chairman, but in deference to Mr. Fulton I will pass on.

Mr. FULTON: Thank you. I have, I think, only five questions. First, Mr. Stevens, you have told us about the reduction in your credit with the chartered banks and your estimation of the reason for that reduction. Did you report this fact and your opinion about the conduct and attitude of, say, bank A, or any of the other banks to the Inspector General of Banks at any time?

Mr. STEVENS: Not formally. We had discussions with certain of the senior departmental officials in Ottawa when informal comments were made, but this situation was never pointed out in a written form and I cannot really tell you whether anything was ever mentioned to the Inspector General of Banks.

Mr. FULTON: You would not be able to say whether your reports were made in such a way that they would come to the attention of the Inspector.

Mr. STEVENS: No, definitely they would not, because this was only conversation with the people involved. Of course, the conversation could have been related to—

Mr. FULTON: Did you ever take any steps with a view to bringing this situation, which must have been galling to you, to the attention of the Inspector General of Banks?

Mr. STEVENS: No.

Mr. FULTON: This series of discussions that have created these hearings of this Committee appear to have gone on at least from December 13 to February 1, during which time considerable differences as to policy, at least, between you and perhaps your group on the one hand and Mr. Coyne and his group on the other, became apparent. Mr. Coyne told us yesterday that he objected, and in his press release he has given, in summary form, reasons for his very strong objection to the policy and, indeed, to the propriety of what you were doing. Did you ever receive a letter from Mr. Coyne outlining his concern in a formal way, or summarizing his position, or his criticisms during all this period?

Mr. STEVENS: No.

Mr. FULTON: You received no formal statement of Mr. Coyne's position?

Mr. STEVENS: Do you mean, no formal written statement?

Mr. FULTON: Yes, a formal written statement.

Mr. STEVENS: No; we only had discussions.

Mr. FULTON: Did these discussions reveal sharp differences of opinion and approach?

Mr. STEVENS: I would say they revealed more differences of approach than opinion. So many times you would feel you were both stating the same thing, one putting it one way and the other putting it another way.

Mr. FULTON: I am really asking whether you had ever received a formal statement, written or unwritten, from Mr. Coyne of his views on the propriety of what in his view, was being suggested?

Mr. STEVENS: With reference to—

Mr. FULTON: With reference to the things he summarized in his press release.

Mr. STEVENS: In the language that you have put it, I would say no.

Mr. FULTON: Did you ever receive from the Inspector of Banks any written or unwritten intimation of disapproval of the conduct of the Bank of Western Canada?

Mr. STEVENS: No.

Mr. FULTON: What has been happening here and what we have been inquiring into, Mr. Stevens, is really a fight among the directors to decide who is going to control, determine and direct policy of the bank, is it not?

Mr. STEVENS: In my opinion that is all it amounts to.

Mr. FULTON: What are we here for? Do you not think we ought to send you home to settle your differences and decide what the policy of the bank is going to be?

Mr. STEVENS: I would be more than pleased if you would.

Mr. GRÉGOIRE: I agree with that, Mr. Chairman. This is a discussion for nothing.

Mr. MACKASEY: I disagree. I think we should hear Mr. Coyne tomorrow and then we can form that conclusion.

Mr. GRÉGOIRE: We heard Mr. Coyne yesterday.

The CHAIRMAN: Mr. Sherman is the only other name on my list and I think we should deal with our procedure before deciding whether to give Mr. Sherman an opportunity at this time, as he is not a formal member of the Committee.

We did indicate to Mr. Coyne that he would be subject to our recall and it may be that some members of the Committee are interested in hearing from him further and others may not. He may wish to say something himself. At the same time, I do not want to keep sounding like the same old record, but I am continuously conscious of our obligation to the House with respect to the legislation referred to us, and I am wondering whether the best thing to do might not be to attempt to sit to seven o'clock and give Mr. Coyne some brief right of reply. After all, gentlemen, our principal purpose here, if I may say so, is not to provide a forum for this type of disagreement, it is only to look at the public policy aspects of it, if there are any. In that regard, if I may be permitted to make that sort of comment, we may want to try to use the opportunity we have given these gentlemen to appear before us to supplement our existing information on the operations of the banking industry and return to our direct consideration of legislation tomorrow morning. What is the reaction of the Committee to what I have just said?

Mr. MACKASEY: Mr. Chairman, if you want mine, I would have felt a lot more useful today if we could have the transcript of what Mr. Stevens said last evening, because he spoke lengthily and eloquently.

The CHAIRMAN: Mr. Mackasey, we have to recognize that we are dealing with a system of supporting services that has not yet caught up to the burden of work imposed on it.

Mr. MACKASEY: I am not criticizing you, Mr. Chairman; you asked my opinion and I am trying to state it.

The CHAIRMAN: Well, I do not disagree with you at all. I agree with you 100 per cent.

Mr. MACKASEY: I do not know why we could not have photostats of Mr. Stevens transcript, because I know this is available. If someone wants to go and get the blues and photostat them we could all know what is going on.

The CHAIRMAN: Well, assuming that the tapes have been typed up—that is a big assumption. I am not certain that this has been carried out yet. I did, in fact, indicate to our Clerk that I hoped that she would see that the tapes were typed up as soon as possible; whether they have been typed up as yet, I do not know. I have not discussed the matter with her.

Mr. MACKASEY: This leads me back to the format you agreed upon last evening, that Mr. Coyne would temporarily cease his evidence so that Mr. Stevens could make his statement, in order to rectify any unintentional harm that might have been done to his groups in the public eyes. We followed the second step, and the third step we agreed to was to permit Mr. Coyne to come back in the way of rebuttal if one is necessary. We all agree here, I think, that we do not want to be a sounding board for private problems, but we also have a duty to make sure that the charter granted through this Committee is being respected, and so I do not think we can just pass it over lightly.

The CHAIRMAN: One reason we want to hear the Minister tomorrow is to get his reaction in the light of the evidence that we have taken—at least in part—in assistance to the Minister.

Mr. GRÉGOIRE: Mr. Chairman, how can he have a reaction? He was not here.

The CHAIRMAN: The Inspector General of Banking, Mr. Scott, has been in attendance with representatives of his department and it may be that the Minister's parliamentary secretary has been in attendance at times during the afternoon, and I am sure he is in a position to give a rather complete report on what has gone on here. What we really have to decide is to what extent we wish to give these gentlemen, who have given us some very interesting testimony, the opportunity to continue to use the time of the Committee in the light of what—

Mr. MONTEITH: Mr. Chairman, may I ask a question, because I think it is a little silly for us to kill ourselves over this sort of thing and this is what we have been doing over the last few weeks. I am not blaming you. However, could I ask, are both Mr. Coyne and Mr. Stevens going to be greatly inconvenienced by remaining over until tomorrow morning?

The CHAIRMAN: Mr. Coyne?

Mr. COYNE: I am agreeable to remaining over until tomorrow.

Mr. MONTEITH: Well, under those conditions, I think we should hear Mr. Coyne first thing tomorrow morning at 11 o'clock. Is there one night off a week? It is now twenty minutes past six. I move we adjourn.

The CHAIRMAN: This is a motion that is not discussable. All those in favour of the motion? Perhaps we might reserve the motion for just a moment. Mr. Stevens, you have a statement?

Mr. COYNE: On a point of clarification, the bank in New York that we have referred to has apparently been identified by the press in New York, and they have issued a press release that I think I should read to you concerning this whole matter.

> The Meadow Brook National Bank has had discussions with officials of the Bank of Western Canada, as well as officers of the British International Finance (Canada) Limited, over a period of several months. These discussions have covered a broad range of subjects aimed at establishing a close business relationship with the bank and the British International Finance (Canada) Limited group. The conversations that took place were normal and customary within the framework of international banking. Except for the approval of a standard loan request to the BIF group no other commitments were made between the parties involved. Meadow Brook National Bank became interested in developing a banking relationship with the Bank of Western Canada when it was announced that Mr. Stevens and Mr. Coyne were not only active in the bank's formation, but were to participate as officers and directors.

Now, that is the bank's press release concerning this whole matter.

Mr. MONTEITH: I move we adjourn.

The CHAIRMAN: You have heard the motion for adjournment.

An hon. MEMBER: I second the motion.

Motion agreed to.

The CHAIRMAN: The meeting is adjourned until 11 o'clock tomorrow morning.

THURSDAY, February 9, 1967.

The CHAIRMAN: Gentlemen, we are in a position to resume our meeting.

Before we adjourned last evening Mr. Stevens was answering questions and before recognizing Mr. Sherman I had interrupted the proceedings to discuss our agenda. Mr. Sherman was to be the last one to ask questions of Mr. Stevens before giving Mr. Coyne a chance to complete his own appearance before us. I think out of courtesy to Mr. Sherman we should ask him whether his questions are intended for Mr. Stevens or Mr. Coyne.

Mr. SHERMAN: They were intended for Mr. Stevens, Mr. Chairman.

The CHAIRMAN: Perhaps as a courtesy to you, Mr. Sherman, we should give you a brief period to place these questions, with the understanding that you will be the last questioner of Mr. Stevens.

Mr. SHERMAN: I appreciate that, Mr. Chairman and members of the Committee. My questions are brief and will only take two or three minutes at the most, I believe.

Mr. Stevens, you made reference yesterday to policy differences with some of the bank's western Canadian directors—differences between yourself and your supporters on the board of directors and western Canadian directors. You mentioned that some directors had expressed the feeling that BIF presence was a negative factor in promoting the bank in western Canada and that some directors in fact had thought the parent company should sell some of its shares.

Were there any discussions between you and Mr. Coyne or between you and some of these directors with a view to correcting this so-called negative factor and to give BIF more of a western image, more of a western presence?

Mr. SINCLAIR M. STEVENS (*President, British International Finance (Canada) Limited*): Yes, there were two or three suggestions made. I think I mentioned two of them already. One suggestion was a voting trust arrangement, which would be the assigning of the voting rights to the Bank of Western Canada shares that we owned to a western committee, and allow this committee—to be named; there were no names mentioned—to have the right to vote these shares.

Another was that we could sell a portion of our western interests, with a view to strengthening the western image, and we indicated that such a sale would be acceptable to us if we could find a partner that we felt had the same basic concept for the future of the bank as we did, which would be a sound, profitable, aggressive western bank.

A third suggestion—I think I maybe mentioned this too—was that I personally move west because, being Chairman of the board, it would perhaps create more of a western image.

There was the suggestion too that perhaps the head office of BIF could be moved west; in other words, we are situated in Toronto and that it may appear better if we moved the head office of BIF to some western centre.

As far as we were concerned—we listened to all these points—the chief suggestion that we felt was very worthwhile to try to work on was the idea of bringing in a western partner who would own a block of the Bank of Western Canada shares. There were discussions to the degree that I know at least one director has approached certain western people with a view to interesting them in acquiring such a block but to date I have not heard that there is any interest.

Mr. SHERMAN: This was the second part of my question, to which I was leading, Mr. Stevens. In other words, there were some efforts made to sell BIF shares in western Canada.

Mr. STEVENS: Yes. One of our directors specifically phoned. I know of one possible buyer and possibly a second buyer. I think his main area of operation is in Alberta. We felt that this group might be interested in buying an interest in the bank, but they came back and said no, they would not be interested. I believe the principal person in the group is already a bank director and he felt that in view of his present bank connections that would at least be one reason that they would not be interested in buying a portion of the Bank of Western Canada.

Mr. SHERMAN: In an attempt to resolve this conflict and confrontation is a continuing effort of a concerted nature being made to sell BIF shares in western Canada?

Mr. STEVENS: Yes, we have left our offer open. We are willing to negotiate with any group in the west who would like to buy a portion of our shares in the Bank of Western Canada. There have been no prices discussed. The suggestion that was raised at the Board meeting of our selling at a market level which would be, for example, a $3 loss, I think would be a very hard thing for us to swallow. We, I think, would expect that a partner would come in at at least the issue price, which would be $15, to ensure that at least we did not take a loss for having tried to develop the bank to the present point.

Mr. SHERMAN: Will the criterion be financial or philosophical?

Mr. STEVENS: Well, financial, of course, will be very important, but by philosophical I would say that we would hope that the partner would be one who would feel that the Bank of Western Canada should be a very active, important western institution. There are different ideas in banking. As I mentioned, there is a savings banking type of approach but, as far as our group is concerned, we do not feel that the savings bank approach is really the answer. That is something more akin to what the trust companies are doing at the present time, and we would like a truly commercial active bank in the west to try to do the service that I think can be done out there.

Mr. SHERMAN: Thank you, Mr. Stevens. Thank you, Mr. Chairman.

The CHAIRMAN: We have completed our questioning of Mr. Stevens and we will now give Mr. Coyne an opportunity to complete his appearance before us. We invited Mr. Stevens to make a statement on Tuesday evening. We are about to begin a second round of questioning, and the first name I have on my list is Mr. Fulton. Mr. Fulton, I leave it to you and Mr. Coyne whether you want to begin asking questions immediately or whether you wish to invite Mr. Coyne to make any initial comments he may have at this stage.

Mr. FULTON: I am in your hands, Mr. Chairman, whichever is agreeable.

The CHAIRMAN: If you have some initial comments, Mr. Coyne, I would ask you to proceed, and then Mr. Fulton will begin the round of questioning.

Mr. JAMES F. COYNE (*President of the Bank of Western Canada*): Thank you, Mr. Chairman. I do not think I will be very long. There are four points on which I wanted to comment.

The first has to do with the overdue payment on the subscription of $2.25 million originally made by Canadian Finance and Investments Limited and subsequently taken over as a liability by the Wellington Financial Corporation. This subscription was part of the original financing arrangement for the bank and was reported to committees of the Senate and the House of Commons as part of the capital which would be available when the bank charter was granted.

Mr. Stevens answered some questions by Mr. Thompson as to why the remainder of the money had not been paid and indicated three reasons, all of which seem to suggest that the non-payment was a deliberate policy on the part of the Wellington Financial Corporation and not involuntary. I should say that $250,000 out of the total subscription of $2.25 million was paid in September and a further $550,000 was paid on January 4th, 1967 making a total of $800,000, which left $1,450,000 still to be paid.

The first reason given by Mr. Stevens as to why the payment had not been made was that two of his associates were disappointed in the policies or lack of definite policies on the part of the bank. A second influence on their thinking, he said, was that some directors indicated to them that the BIF association with the bank was a negative factor and that it would be better if they sold some of their stock. He said that this caused them to draw back.

The third reason, which may seem somewhat the same as the second, was that they would have to use credit funds to make the payment and that they would have to borrow it against their assets, so that they would really only be warehousing the Bank of Western Canada shares until they were sold.

As I have said, this relates to a payment on a subscription which was part of the basic financing of the bank. Statements were made in prospectuses to the Senate and House of Commons committees that these subscriptions were being made and that the funds would be available. The subscription was then made formally in writing by the Canadian Finance and Investments Limited in, I think, September, 1966. It was a written subscription, addressed to the bank, after it had obtained its charter and was on the same terms as all other subscriptions, namely, that the money would be paid at a date to be fixed by the Board of Directors. That date was fixed at a meeting of the board of Directors in Winnipeg on December 15th and 16th, 1966 on a motion which, I think, was carried unanimously. All the other subscriptions of any consequence were paid in full on the due date of January 3rd. There was a partial payment of $550,000 made on the Wellington subscription, as it then was, on January 4th, and it was indicated that more would be paid later.

The suggestion that a subscriber, and particularly a charter member and promoter of a company, should not indeed have to put in money at the same time as other shareholders because he is not happy about some of the policies of the company, is quite an unusual one. So far as the suggestion that the BIF people would be asked to sell some of their stock is concerned, I do not believe that came up for consideration until the January 20th meeting of the Board of Directors or actually on January 19th, the day before, in an informal discussion in a group known as the Executive Advisory Committee of the Board. By that time the payment was two weeks overdue.

The second point that I would like to comment on is with regard to the request made at the meeting of December 16th, that loan facilities be made available by the bank to the BIF group. I believe my account of those discussions was correct and it is the account you would get from any of the independent directors. I spoke to Mr. Brown of Vancouver on the telephone Tuesday night and told him Mr. Stevens' description of the discussion and he corroborated my description of them.

Mr. Stevens mentioned to you the other day, as I did, the fact that during the discussion on December 16th, Mr. Brown raised an objection, saying that it was improper under section 75 of the Bank Act, if I have the section number correct, for the BIF directors to be present while a loan to their company was being discussed. Mr. Stevens suggested that the fact the discussion continued shows it was not a discussion of a loan. The fact is that Mr. Brown renewed his objection several times at intervals throughout the discussion. There can be no

doubt that the independent directors understood it to be a request for a loan in a specific amount, or a line of credit in a specific amount, namely, $1,300,000. They resisted that request; they spoke against it, and in the end the proposal in its original form was withdrawn. I may say that subsequently in Toronto Mr. Stevens and others in the BIF group pressed the whole idea on me several times in the strongest terms, saying that the BIF group controlled the bank and was entitled to get credit from its own bank, as Mr. Stevens said yesterday.

The third point I wish to comment on has to do with negotiations with the Meadow Brook National Bank of West Hampstead, New York and other American banks. Mr. Stevens indicated that his group had had negotiations and lines of credit with New York banks before, with banks in the midwest and far west of the United States and with banks in England. So far as I know, there was never any borrowing done by British International Finance or Wellington Financial from American or British banks for use in Canada. There may have been loans by foreign banks to other BIF subsidiaries operating outside Canada, such as Wellington Overseas Corporation in New York which buys South American paper for resale to the United Sates banks.

The Meadow Brook deal was the first one, so far as I have ever heard, designed to raise funds for BIF and Wellington Finance for use in Canada, and this loan could not have been obtained if it were not for the correlative hookup they were promised with Bank of Western Canada operations and with Bank of Western Canada stock. Mr. William Mindlin, who was identified by Mr. Stevens on Tuesday night as his agent for these negotiations in New York, attended the directors meeting of BIF and Wellington in Toronto on February 1st and said: (1) He had been trying for months to interest American banks in becoming associated with Bank of Western Canada as an inducement to them to lend money to British International Finance. (2) He could not have obtained a loan from any American bank on the credit of BIF or Wellington Financial alone. He would have been an idiot—that is his exact phrase—he said, to even try, knowing the current position of affairs and the tight money situation.

Mr. MACKASEY: Could you speak more slowly, Mr. Coyne, please.

Mr. COYNE: Yes, I will try.

Thirdly, Mr. Mindlin had committed—his words—BIF and Wellington to the deal, and included an option—his word and a word which he used again and again—on stock in Bank of Western Canada held by Wellington Financial Corporation amounting to 10 per cent of the total shares of the Bank of Western Canada; and also an understanding that the American bank would be allowed to participate in large loans by the Bank of Western Canada, and in other ways be associated with the management of the Bank of Western Canada.

This is to some extent corroborated by the press release issued yesterday by the Meadow Brook National Bank, when they said that they had been holding discussions for some months with officials of the Bank of Western Canada with a view to various types of association. I subsequently sent them a telegram saying that I did not know of any official of the Bank of Western Canada who had been discussing matters with them, other than perhaps Mr. Stevens who, as Chairman of the Board, had no authority to enter into such discussions or to use the name of

the Bank of Western Canada. I wish to say, gentlemen, I believe that if these facts about the participation of this American bank in the affairs of the Bank of Western Canada had been declared to this Committee or to the Senate Committee in 1966 or in 1964, you would not have granted a charter to the Bank of Western Canada.

The fourth point I wish to deal with is a question of control of the bank and its policy. We told Parliament that there would be a majority of directors from western Canada. I said that and Mr. Stevens said that. Mr. Stevens has subsequently referred here and in public statements to these western directors as having only $7,500 worth of stock, suggesting, apparently, that for that reason they are not to be expected to exercise their own judgment but are to be expected to yield to the views of the BIF group. That I consider to be also in contravention of the assurances given to Parliament that this bank was to be controlled and managed by a board of directors consisting of a majority from western Canada.

Mr. Stevens says that British International Finance "should have an important say" in the policies and management of the bank. They should, of course, have an opportunity to express their views, to explain them, and to argue the case for them; but the constant suggestion that others must give way because the British International Finance group controls, for the time being, over 50 per cent of the stock, is a very different thing and not in accordance, I suggest, with the indications given to Parliament.

The policies of the bank were outlined in some detail to Parliament before the charter was granted and also in public statements by myself and others. I have not changed my views. I outlined those views again at some length at the first meeting of the Board of Directors of the Bank of Western Canada last October. There is no doubt, I should think, as to what those policies are. There has only been an attempt by the British International Finance group to put on a power play to get a change in those policies for their own advantage, contrary to the statements previously made to Parliament and to the public.

Gentlemen, I feel that this is a very important public matter, not just a private matter. I believe the people of western Canada are not going to regard this matter as a private fight between two groups of directors as to the policy or the control of the policy of an unimportant private corporation, of no concern to the public interest. This bank holds a franchise granted by you gentlemen and your colleagues for a definite declared purpose, on the strength of statements made, assurances given, and questions answered. It is for you to decide what further action, if any, you wish to take in these matters to ensure that those statements, assurances and answers are indeed fulfilled. You could perhaps take action in the course of your considerations of the Bank Act and of the deposit insurance corporation act to prevent the exercise of concentrated voting power in the hands of one man or group of men who are not just voting their own stock, which are very minor holdings in the bank, but stock for which funds were supplied by the general public on very definite understandings as to how this institution would be run.

An independent board of directors, acting conscientiously as trustees for the whole body of shareholders and depositors and borrowers, would seem to me to

be the best way to assure that the original declared character of the Bank of Western Canada will be maintained and that special interests will not be allowed to dominate it.

Mr. FULTON: Mr. Coyne, with regard to the payment of subscriptions, which has formed a part of your evidence both on Tuesday and today, there are provisions in the Bank Act itself which cover a situation arising when there is non-payment of calls on shares or on subscriptions.

Mr. COYNE: Yes.

Mr. FULTON: Have any of these been instituted?

Mr. COYNE: I believe I dealt with that in reply to a question the other day, Mr. Fulton. The subscriptions in this case are not quite the same as an ordinary type of subscription where nothing is paid in until calls are made by the directors. In this case all the subscriptions were intended to be fully paid and all were fully paid, with this exception, on a date which was fixed in accordance with subscription agreements. Whether it is open to the bank to make calls in the ordinary way or whether we must proceed upon a factual indebtedness of the subscriber, I think, is a matter on which we have to consult the lawyers.

Mr. FULTON: Yes, but that is a matter which lies within the authority of the directors to determine.

Mr. COYNE: Yes.

Mr. FULTON: If they are in default then you can have a declaration so made and then the normal consequences follow.

Mr. COYNE: Yes. That is right.

Mr. FULTON: But this surely is a matter which is internal, to the extent at least that the directors have to decide on legal advice or on their own initiative what to do.

Mr. COYNE: All these matters are internal in the sense that somebody has to take action on them, but I think they have considerable relevance to the public interest and to statements that were made in order to induce Parliament to provide a charter.

Mr. FULTON: Yes, but the first question to be determined in this respect, sir, is whether there has been a default, and that has not been determined.

Mr. COYNE: Oh, I cannot think that there is any doubt whatever about that.

Mr. FULTON: If that is the view, I find it odd that this matter is being rehearsed before this Committee instead of very immediate and pressing steps being taken in accordance with what the Bank Act provides to remedy that default or to have the consequences of that default applied.

Mr. COYNE: The matter was put on the agenda for the Board of Directors meeting on January 20th. It was deferred to the end of the agenda at the request of Mr. Stevens, for reasons which he has outlined, and in fact was never reached. The board meeting had to adjourn rather hastily late in the day to enable people to catch their plane home.

Mr. FULTON: Well, I am tempted to make a comment that perhaps the matter was not regarded as all that important if the directors felt it more important to catch their planes and go home.

Mr. COYNE: Well, it was the eastern directors who had to catch their planes.

Mr. FULTON: Where was the meeting held?

Mr. COYNE: In Winnipeg.

Mr. FULTON: I see. All the western directors stayed in Winnipeg, did they?

Mr. COYNE: Yes, until their planes—they were leaving two or three hours later.

The CHAIRMAN: They had to catch a plane too.

Mr. COYNE: Yes.

Mr. FULTON: And are not western directors in the majority on the board?

Mr. COYNE: Yes.

Mr. FULTON: And they allowed the meeting to adjourn—

Mr. COYNE: Well, they had some comments to make about it after.

Mr. FULTON: —so that the eastern directors could catch their plane.

Mr. COYNE: They had some comments to make about it afterwards, Mr. Fulton, but this bank has not—

Mr. FULTON: I am talking about what was done, not what was said.

Mr. COYNE: Yes, but we did not start to hold meetings of the Board of Directors on the basis of having battle lines drawn between two opposing armies. Everybody was still hoping that a reasonable outcome could be reached on all these matters.

Mr. FULTON: And I am sure that this Committee and the general public hopes so too.

Mr. Coyne, I understand that you have no documentary evidence of the submission, by Mr. Stevens or anyone else, of any improper proposals, contrary to the statements made to the Senate or House Committees?

Mr. COYNE: I have stated all the evidence that I have, I think, Mr. Fulton. There was no exchange of writs or formal legal complaints, if that is what you mean.

Mr. FULTON: And no documentary evidence, really, of any sort of the submission of any improper proposal—I am using "improper" in the sense of being contrary to the assurances that were made.

Mr. COYNE: I am not sure what you mean by documentary evidence.

Mr. FULTON: Minutes of meetings, a letter embodying a proposal, or any other documents that would support the statements you have made.

Mr. COYNE: Other than the statements I myself have made in writing, no.

Mr. FULTON: And no other members of the group of western directors, although I think you told us that four of them also had possible identity of interest with the BIF group, have also considered it as yet, at any rate, necessary to resign from their directorships in the BIF group?

Mr. COYNE: I believe that they have or have started to. One man told him that he had resigned from his connection with a BIF company and Mr. Stevens had asked him to delay it.

Mr. FULTON: What other?

Mr. COYNE: That is all I know about it. I do not know where he stands. They were not on the two companies from which I made this particular resignation on February 1. None of them were directors either of British International Finance or of Wellington Financial, which were the two companies engaged in the borrowing operation when they made these proposals to the American banks.

Mr. FULTON: In the course of your evidence, and indeed Mr. Stevens' evidence, it appears that these differences of opinion—I will refer to them as that—had been developing at least from December 13 until matters came to a head on February 1 and 3.

Mr. COYNE: Yes.

Mr. FULTON: Might they have, indeed, been developing for a longer period than that?

Mr. COYNE: Yes.

Mr. FULTON: In your view, on the basis of your evidence, you felt not only, I take it, that it was a difference of opinion as to the matter of ordinary routine policy but that it involved things which, if they were done, would be, in fact, positively improper?

Mr. COYNE: That was what developed probably on and after December 13, and since then all these various things which have been described to you came to a head.

Mr. FULTON: Mr. Stevens told us yesterday that he had never received a letter, any memorandum or piece of writing outlining your position with respect to these matters and your feeling as to the impropriety of proceeding in the way which you say had been suggested. Is that correct?

Mr. COYNE: That is certainly correct. I am not in the habit of writing letters to people when I want to tell them what I think of their proposals.

Mr. FULTON: You did not consider, as President of the Bank of Western Canada, that if you felt that there was emerging a line of action which was being actively advocated by a fellow director who was also Chairman of your board, you should, in writing and in ample time, give warning of the consequences if it were pursued, and your position with respect to what you regarded as an improper suggestion or course of action?

Mr. COYNE: I made my views very well known to Mr. Stevens on several occasions in the most forceful language. I was not concerned with the building up of a file for the records, if that is what you mean, Mr. Fulton.

Mr. FULTON: No, I do not mean that. I would regard that the ordinary proper step for a president to take, who feels that improper conduct is being suggested, would be either to resign then and say, "I must resign if this is pursued any further," or to write a letter stating his position in an attempt formally to prevent any repetition of what he regards as improper suggestions.

Mr. COYNE: Let us take the incidents, one by one. With regard to the meeting on December 16, where the proposal was made for a line of credit of $1.3 million, that was the first time that that proposal in that form was made. I

certainly made my views known in the presence of 15 directors of the bank. Similarly, when I first heard about the transaction with Meadow Brook involving the Bank of Western Canada at a meeting on February 1, I certainly made my views know at a meeting of about 20 directors—15 anyhow—of Wellington and British International Finance, and that night wrote out my resignation.

Mr. FULTON: Between the 13th or 16th of December and the 1st of February, I think you told us there had been a number of other either meetings of the board or informal gatherings of several members at which, you told us, these same matters had been discussed.

Mr. COYNE: Yes. I do not think I mentioned any other meetings of boards of directors; they would be meetings with the group of people associated with British International Finance's affairs.

Mr. FULTON: I think you told us that these matters, particularly the relationship between B.I.F. and the Bank of Western Canada, had been discussed?

Mr. COYNE: Yes.

Mr. FULTON: Proposals which you felt were improper and contrary to the assurances given to Parliamentary committees?

Mr. COYNE: Yes, and which I felt would greatly damage the ability of the bank to do business with the people of western Canada. I thought that was a matter which the parties concerned should give a great deal of attention to.

Mr. FULTON: You did not deem it appropriate or necessary to state your views in writing at any time until you made your resignation?

Mr. COYNE: I did not state my views in writing, as far as I recall.

Mr. LEBOE: I have a supplementary question, Mr. Chairman. Would these matters not be in the recorded minutes of the meeting?

Mr. COYNE: I think that at that time on December 16, everybody was so embarrassed by what was happening that they rather hoped it would not be recorded in the minutes in so far as no formal business was transacted.

Mr. LEBOE: Thank you.

Mr. FULTON: I think that adds a point to my view, that it is rather extraordinary that Mr. Coyne, finding it not in the minutes and taking this very strong view about the impropriety of it, did not follow what I think would have been the normal course, writing a letter.

The CHAIRMAN: Mr. Fulton, I think Mr. Laflamme may want to ask a supplementary question.

Mr. LAFLAMME: Yes, it is supplementary to the one asked by Mr. Leboe. Mr. Coyne, is it not the responsibility of the secretary of the Board of Directors of any bank to register the minutes of any discussions which took place?

Mr. COYNE: He must, of course, record in the minutes, which are then presented to the board at the next meeting for approval, any business that is transacted. I believe in most companies there is considerable latitude as to whether or not reports of discussions will be entered in the minutes. I think usually they are not.

Mr. LAFLAMME: Do you agree, then, that this discussion was informal?

Mr. COYNE: No, sir. It did not lead to a formal action, a vote or a resolution.

Mr. FULTON: I think we had it in evidence earlier that the discussions, of which Mr. Coyne gave his version, were not recorded in the minutes and, in fact, we had the actual minutes of that meeting read to us in whole or in part. It is partly on that basis that I say, first, there is no documentary evidence of improper suggestions. I asked Mr. Coyne why, if it was not recorded anywhere and he takes this strong view of the impropriety of the suggestions in accordance with his version, he did not take the step of writing and saying that these suggestions were made and "I must say that in my view they are improper and I want to record very strongly my attitude toward them."

Mr. COYNE: I was already spending half my time in these discussions trying to resist these suggestions and if I had started on that course at that time, Mr. Fulton, I would have had to spend the rest of my time writing letters about it. I do not think that is a very business-like way to go about these things.

Mr. FULTON: All that we have at the moment is your testimony and your version against Mr. Stevens' testimony and his version and impression of the discussions, and no minutes and no writing to support your suggestion that what you regard as improper suggestions were actually made.

Mr. COYNE: Up to now, I and Mr. Stevens are the only people you have invited to attend here.

Mr. MACKASEY: May I ask a supplementary question?

Mr. FULTON: That is all I have.

Mr. MACKASEY: Although there were no minutes kept, as far as you are concerned, this conversation or these suggestions were made in front of 15 directors?

Mr. COYNE: Yes, of whom at least seven have discussed it subsequently with me and corroborated their views.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Coyne, I notice that you are laying great stress on Mr. Stevens' dealings with American banking interests and I find it rather difficult to understand your concern in this matter when I refer to the evidence of March 3, 1966, when there was considerable discussion as to whether or not it would be possible for the control of the Bank of Western Canada to fall into foreign hands Your Parliamentary Agent, Mr. E. Gordon Blair, had this to say on page 111 of March 3, 1966:

> This whole matter of the shareholdings in the company is dealt with in clause 5 of the proposed bill, and the main effect of this clause—and I think I can summarize it—is that the non-resident shareholdings in the company in the aggregate amount cannot total more than 10 per cent. Then, there is in subsection 8 of the clause a definition of non-resident which not only includes a natural person who is not a resident of Canada but also any corporation which is by any means whatsoever under the control of a non-resident of Canada. So, to the fullest extent possible provision has been made here for prohibitions against transfers of shares which would have the effect of transferring more than 10 per cent of the

share capital of this company to non-resident natural persons or to corporations which are controlled by non-residents.

Mr. Coyne, I do not see any record here suggesting that you disagree with this viewpoint of Mr. Blair's that a 10 per cent transfer to foreign ownership would be acceptable and proper.

Mr. COYNE: No. This clause was put in to limit foreign ownership to that percentage or, as it will be under the new Bank Act, perhaps 25 per cent, which will supersede our charter. That will operate through all time and will apply to all non-residents. Up to that time we had been very careful to assure Parliament that we were not interested in bringing non-residents into the bank, although we recognized some provision would be made that in due course they could buy shares in the open market. But we took special precautions, as was quoted yesterday, that no non-resident would be associated with it prior to incorporation. I am sure we left the impression with this Committee that our group were not in the least interested in bringing in non-residents either as owners of stock or of sharing the control or of participating in the management or operations of the bank. I think that to have this happen before the stock has even been fully paid for, before the bank has even opened its doors—to serve some special purpose, whatever it was of the BIF group—was a very surprising thing, indeed, and one which, if you had been told about it a year ago, you would certainly have had something to say.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not notice that anybody on the Committee objected to Mr. Blair's summation of the position—

Mr. COYNE: No.

Mr. CAMERON: —that it would be permissible to sell 10 per cent of the stock.

Mr. COYNE: It would be permissible for non-residents to acquire, which is a different thing, perhaps, than for the organizing group to go out and sell it to them.

The CHAIRMAN: Where else would they get it?

Mr. COYNE: The shares have been traded on the market in large volume for two or three years now.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They could only come on the market if they were sold by those who own them.

Mr. COYNE: Which would include the general body of shareholders, of course.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. COYNE: I am sorry; the Trustee Subscription Certificates could not be sold to non-residents. Once the general body of shareholders get shares in the bank in place of those Trustee Certificates, then they can be sold to anyone. When the transfers are presented to the Board of Directors for approval they have to see that not more than 10 per cent goes into the hands of non-residents. I may say that if 10 per cent goes into the hands of one non-resident as the result of a sale by one group, then no other resident could sell shares to any non-resident so long as this clause applies.

Mr. McLean (*Charlotte*): Could I ask a supplementary question? If Mr. Stevens sold 20 per cent of his shares to this bank in the United States and he still retained 30 per cent, would that not give him control up to the time that the stock was distributed?

Mr. Coyne: He was talking of selling 10 per cent of the bank's stock and would then retain 40 per cent.

Mr. McLean (*Charlotte*): He has to tell 20 per cent of his because he owns only 50 per cent.

Mr. Coyne: That is so, but the 20 per cent is not deducted from the 50 per cent. What is deducted from the 50 per cent is 10 per cent of the bank's shares.

Mr. McLean *(Charlotte)*: Yes, but does the American bank, together with his stock, not control the Bank of Western Canada?

Mr. Coyne: Yes, according to that.

Mr. McLean *(Charlotte)*: And he is in agreement with the bank in the United States that they would take control?

Mr. Coyne: Yes—well, together they would.

Mr. McLean (*Charlotte*): Yes.

Mr. Cameron *(Nanaimo-Cowichan-The Islands)*: Mr. Chairman, if I may complete this. The substance of Mr. Coyne's charge is that these negotiations, if they were negotiations, with American banks were in contravention of assurances given to the Banking Committee, but the only assurance I see is the assurance that the bill will limit any such transfer to 10 per cent.

Mr. Coyne: I am sorry. That is not the only reference; that is the legal situation, and the clause that was being brought in by amendment of the bill—and I am sorry but I cannot give you chapter and verse; I am relying only on my memory that this matter was raised in the Senate Committee and, I believe, in this Committee too.

The Chairman: It would be very helpful if you could give us references.

Mr. Coyne: I am sorry, I cannot, because I have not been able to go back and read through the whole thing.

The Chairman: It is a factor, sir, if I may—

Mr. Coyne: I leave it to the recollection of the Committee.

The Chairman: It is a factor, sir, that a group, represented by yourself and Mr. Stevens, asked this Committee to incorporate in the bill amendments which would make it quite possible and permissible for 10 per cent of the shares of the Bank of Western Canada to be held by non-residents. Is that not a fact?

Mr. Coyne: May I just put it slightly differently? But for that clause, non-residents could have bought all the stock in the bank. The purpose of that clause was to limit and severely restrict the amount of non-resident holdings that there must be, and I think it was given, and this clause was proposed by us, to meet the concern expressed by some members of the Senate and the House of Commons that there was this danger of non-resident control of the bank.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: Then, Mr. Coyne, I must ask you this question. If you feel so strongly about the possibility of 10 per cent falling into foreign hands, why did you not propose a clause in the bill that would prohibit all non-resident holdings? It does seem to me that when you mention 10 per cent, the implication is quite clear that you would accept that as acceptable.

Mr. COYNE: I never contemplated that it would be 10 per cent in any one hand at that time, Mr. Cameron; I never contemplated that the 10 per cent would be offered to them by the founding group; and I never contemplated that the 10 per cent would be offered in the course of negotiations of the character that these negotiations took.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I find it rather difficult to understand your position. I would like to ask you something else, Mr. Coyne. My concern in this matter—and I am sure it is the concern of all the members of the Committee—is not so much with the internal fight within your organization but with the effect that the revelation of this struggle may have on public confidence in financial institutions in Canada. As I am sure you know, I hold no particular brief for the various types of financial institutions we have had described to us and if I had my way I would abolish all of them tomorrow. But, neverthless, they are part of the present financial structure of Canada and I think we have to accept the fact that we must, as far as possible, maintain public confidence in them.

I would like to ask you this question, Mr. Coyne. Why did you consider it necessary to, shall I say, withdraw the hem of you garment with such a flourish of trumpets? Why did you have to have a press release announcing to the whole world that you were resigning your position with these companies which together hold the majority shares of the new bank? What was your purpose in doing so? I ask you these questions because I am sure you must have realized that the possible effect would be extremely damaging on the confidence of the public in institutions which were the major shareholders of your bank. Why was it necessary to do it in this way?

Mr. COYNE: I gave the reason in my original statement, that I thought this was a matter of urgent public concern and that the public should be informed on it; and I say now that it would have been improper and a conflict of duty improperly resolved if I had not resigned from those companies in all the circumstances which had arisen. I do not feel that directors should simply resign quietly when they do not like something and not have anybody know that they have resigned or have people wondering, perhaps, about the reasons for their resignation, and possibly imputing entirely wrong reasons to that action which could have been much more damaging.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: I have no means of estimating what damage you may have done.

Mr. COYNE: I do not think I have done any damage.

Mr. CAMERON *(Nanaimo-Cowichan-The Islands)*: You may not have done any.

Mr. COYNE: No.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But I think the danger was definitely there.

Mr. COYNE: I think the damage would have been much greater if I had not done what I did do. It would have been damage in that case to the public interest and to the interests of the shareholders and others concerned.

Mr. MONTEITH: Of the Bank of Western Canada.

Mr. COYNE: And of the other companies, too.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is all I have to ask for now.

The CHAIRMAN: The next name on my list is Mr. Mackasey, unless he was merely attempting to ask a supplementary question.

Mr. MACKASEY: That is all I was attempting to do. I did want to have Mr. Mindlin identified a little better, Mr. Coyne. Was he an officer of the BIF group or was he in the employ of an American group?

Mr. COYNE: He was identified and his name was given by Mr. Stevens, not by me. I believe he is either President or Vice-President of Wellington Overseas Corporation which is a subsidiary probably of Wellington International Bank, although I am not sure of that either, which, in turn, is controlled by British International Finance.

Mr. MACKASEY: Mr. Coyne, one of the reasons for your bank—and it is a very logical one—is that we need more Canadian controlled chartered banks in Canada, and the banks need more competition. Mr. Stevens inferred that there is a great lack of competition and, in fact, that there was a conspiracy against BIF by the Canadian chartered banks which was reflected in a greatly restricted line of credit to the BIF group. I suggest that you, as a director of the BIF, should have known about this form of discrimination by the other chartered banks.

Mr. COYNE: I knew that Mr. Stevens had arranged some lines of credit and had tried to arrange others, and that certain changes were made in the lines of credit he had arranged. There were changes both up and down at various times. The bank that was not identified the other day at one time increased the credit facilities available to these companies from a previous figure of $5 million to $10 million. They later reduced it substantially. As to whether there was any conspiracy, I never believed that. Mr. Stevens used to complain about the banks closing down on him because of the Bank of Western Canada; he used to complain about the bond dealers having done things which he did not like; he used to complain about a lot of people who he felt were causing difficulties. You cannot get into violent arguments with a man every time he expresses an opinion, or you might as well start writing letters to him.

Mr. MACKASEY: But he did express his opinion. At least he was sincere in his belief in that he did express his opinion openly to you.

Mr. COYNE: There was never any opinion expressed, and I do not think he expressed it yesterday, that there was a conspiracy among the banks. I do not think that was ever said.

Mr. MACKASEY: It was certainly implied. I am not suggesting there was; I would just like to know if there was.

Mr. COYNE: I do not think that word was used.

Mr. MACKASEY: We are labouring under the handicap that we do not have the transcript, which is no fault of the Committee. Certainly Mr. Stevens did leave the impression with the Committee—and if anybody in the Committee would like to contradict me I would accept their version of it—and I will not use the word "conspiracy"—that all the Canadian chartered banks coincidentally, from the moment it became apparent that the BIF group was interested in the Bank of Western Canada, conveniently reduced his line of credit down to $250,000.

Mr. COYNE: I think that you are doing an injustice to what Mr. Stevens said in that respect. I do not believe he said "from the moment that it became apparent that BIF were interested in the Bank of Western Canada" because that became apparent in December 1963, when an announcement was made. Then there were applications to parliament, where the matter became very clear; and during this period there were financial arrangements made and Mr. Stevens, on two occasions, said to Parliamentary committees that he had adequate banking arrangements, and that included up to last March 1966.

Mr. MACKASEY: The point I am getting at, Mr. Coyne, is that it would be an awful dog in the manger attitude if the existent Canadian chartered banks were to try to do anything to impede the progress of the western bank, either directly or indirectly; indirectly by curtailing the activities of the BIF group, and this is what has concerned me basically.

Mr. COYNE: I am not sure that I agree that any institution such as BIF has a right to expect that people must lend money to it. That could be affected by a lot of circumstances. Perhaps they should carry on their affairs in such a way that they do not depend on borrowed money or, at any rate, on bank borrowings.

Mr. MACKASEY: Up to what date were you a director of the BIF group?

Mr. COYNE: Until February 1—of the BIF company itself.

Mr. MACKASEY: So you obviously expressed this opinion internally on different occasions?

Mr. COYNE: On different occasions, but it did not arise in quite that way, Mr. Mackasey.

The CHAIRMAN: Have you completed your questions, Mr. Mackasey?

The MACKASEY: Yes, I have, Mr. Chairman.

The CHAIRMAN: The next name I have on my list is Mr. Latulippe. Actually he had signified his desire to be on the second round of questions the evening before last.

Mr. LAFLAMME: At this point, Mr. Chairman, I want to raise a point of order. I would like to know if we are going to continue this kind of discussion for the rest of the day. We already have had one full day of discussions which has been very useful to us. However, we have before us the Canada Deposit Insurance Corporation reference which is much more important than deciding who is wrong and who is right in this internal dispute. I, for one, really believe that we will not gain much if we continue in this way. In my view, that is not why we are here.

The CHAIRMAN: Mr. Laflamme, I think you have raised a point which already has been alluded to on other occasions, both by other members of the Committee and myself. I personally want to thank you for raising it again. I stressed at the outset that we invited these gentlemen here because of what they might have to say with respect to the responsibility given to us by Parliament with respect to the legislation referred to us. It was within this rather limited ambit that we wanted to hear from them and question them. While it may be that many others here would like to continue this discussion on it for some length—there are many aspects that might be of interest to probe into for other reasons—I would invite the Committee to consider whether or not they feel we have gone far enough with respect to getting information to assist us in our deliberations imposed upon us by Parliament.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I would like to ask just one question.

The CHAIRMAN: Before I get to that I want to make a suggestion. We have the Minister of Finance with us; he has just arrived. The idea was that after we had had some opportunity to hear from these two gentlemen we would invite him to make any comments he felt he had in the light of the information that we derived from questioning these people, and then we would invite him to continue with us on the deposit insurance bill which has been referred to us, with a view to attempting to complete our consideration of it and to report back to the House before beginning and hopefully completing our clause-by-clause consideration of the banking legislation.

Mr. LEBOE: On this point of order, Mr. Chairman, should not Mr. Latulippe be allowed to proceed?

The CHAIRMAN: That is exactly what I was going to suggest. I was going to suggest that since Mr. Latulippe had, in fact, asked for an opportunity to ask some questions Tuesday evening, we should recognize Mr. Latulippe, and then excuse both Mr. Coyne and Mr. Stevens and invite the Minister to appear before us.

Mr. COYNE: I understand that you will then be through with me. Is that right, Mr. Chairman?

The CHAIRMAN: That appears to be the view of the Committee.

Mr. COYNE: That is what I had hoped because when you asked me if I could stay over until today I arranged to do so, but I have to leave in another hour.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I would like to ask one question.

The CHAIRMAN: Mr. McLean, I will recognize Mr. Latulippe first, followed by yourself for your single question.

(*Translation*)

The CHAIRMAN: Mr. Latulippe.

Mr. LATULIPPE: Mr. Chairman, I had many questions to ask, but since many members have asked many questions I had intended to ask, so as to not repeat the same questions, I will just keep to the main questions of bank policy. I gather, as do other members of the Committee, that the conflict between Mr. Coyne and Mr. Stevens, or the BIF, stems from the December 16 meeting of the

Board of Directors of Westbank. BIF and York Lambton Corporation would have requested funds from Westbank. I think it is especially on that question that there is misunderstanding, and if I refer to the main principles of banking, I find that the Bank Act may prohibit a bank from lending to a director, but it does not prohibit lending to an institution of which the bank director is also a director. If a bank can create money at the rate of twelve to one, it is for one's own benefit and for the benefit of one's companies that one becomes a director. Is this not, therefore, a normal situation? Why should these institutions and these gentlemen be prohibited—why not allow them all, all bank directors, as is the case for all other banks in Canada, to benefit from the laws and regulations and policies of banking? This is an example: The President of the Royal Bank of Canada is also a director of more than twenty companies, very important companies. Is he prohibited from lending to the Royal Bank or to these corporations? When we were discussing the formation of the Bank of Canada in 1934 in the Finance Committee of the day, it was shown that the President of the Bank of Montreal, Sir Charles Gordon, was a director of Dominion Textile and that the Bank of Montreal was lending five million dollars do Dominion Textile. This is the same thing that these gentlemen are trying to do. Other instance: On the same occasion, when the Bank of Canada was created in 1934—Mr. Coyne is aware of this—it was proved that the Royal Bank was lending to Consolidated Paper more than $14 million. A huge sum for the time. The President, Sir Herbert Holt, was a director of Consolidated Paper.

The CHAIRMAN: Mr. Latulippe, perhaps you have given enough detail to clarify your question. And the Committee would like to get an answer from our witness if he thinks he can add anything to the ideas you have unfolded before the Committee.

Mr. LATULIPPE: As a conclusion, Mr. Chairman, I think we should leave Westbank lend money to the companies whose directors are also directors of a bank. This goes on everywhere, and the privilege to create money twelve to one would benefit them and their corporations, and not only their competitors. If the bank allows $12 million to be loaned on the extent of $1 million, it is most interesting for those who belong to a bank and for those who create banks. So, if the law allows all other institutions to benefit from these privileges and to have the privilege of creating credit twelve to one, it seems that this same advantage should be allowed to other institutions and they should be given the same privileges as any other banking institution in Canada. Otherwise, the Act would have to be changed.

The CHAIRMAN: Thank you, Mr. Latulippe.

(*English*)

Mr. Coyne have you anything to tell us about these interesting questions?

Mr. COYNE: I think the question was why the Bank of Western Canada would not make large loans to its directors or their companies if other banks do so. One reason, perhaps, would be that the Bank of Western Canada will only be making small loans. It does not have the resources to make very large loans and for many years it will not have the ability to make large loans. But the main reason, and the one which I have given here and in public is that Parliament was told that loans would not be made by the Bank of Western Canada to any companies in the British International Finance group.

Mr. GRÉGOIRE: But the Committee is now expressing another opinion, Mr. Coyne.

Mr. COYNE: I have not heard it that way, Mr. Grégoire.

The CHAIRMAN: He means the members of the Committee.

Mr. COYNE: I thought he was asking me for my answer to why I thought this should not be done. Does that answer your question?

The CHAIRMAN: Yes. Thank you, Mr. Coyne.

(*Translation*)

The CHAIRMAN: Do you have any more questions, Mr. Latulippe?

Mr. LATULIPPE: No, Sir.

(*English*)

The CHAIRMAN: Dr. McLean, you have a single question.

Mr. MCLEAN (*Charlotte*): Yes, I have a single question. In his evidence Mr. Stevens mentioned the name of a Mr. Bernard.

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): Is he an employee of the western bank?

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): Who engaged him?

Mr. COYNE: Mr. Cutts, the general manager.

Mr. MCLEAN (*Charlotte*): That is, the western bank engaged him?

Mr. COYNE: Yes.

Mr. MCLEAN (*Charlotte*): Was he an employee of the BIF?

Mr. COYNE: No.

Mr. MCLEAN (*Charlotte*): He was not?

Mr. COYNE: No.

The CHAIRMAN: Thank you, Mr. Coyne and Mr. Stevens for adding to our already sizeable store of information which we hope to be able to bring to bear, in short order, on our consideration of the banking legislation, with the hope that it will be available to the public before the present law expires on April 1.

I would now invite the Minister of Finance to come forward.

Mr. SINCLAIR STEVENS (*Chairman, Bank of Western Canada*): Mr. Chairman, I was asked, immediately following the session last night, to clarify one point. I hope I have not misled the Committee in the sense that a representative from the Bank of Montreal asked me to clarify that that bank was not loaning us any money at the present time. When I itemized the various banks, I was indicating the banks that we presently were dealing, not necessarily the banks that are loaning us money. The Bank of Montreal does handle clearing facilities for us in one of our companies but they, in fact, are not loaning us money at the present time. I said that I would make that clear to the Committee today.

The CHAIRMAN: Thank you, Mr. Stevens. Gentlemen, you may stand down and follow the proceedings in a more relaxed manner in another part of the room.

I have invited the Minister to come forward. I believe that the Committee has agreed that we will hear from him first with respect to this issue in the light of the information we have derived, following which we will begin our consideration of the deposit insurance bill. I understand from the Inspector General that the Superintendent of Insurance is not, as yet, with us and there are certain amendments he may want to present to us. That being the case we may agree that we would not being our actual consideration of the deposit insurance bill until the afternoon session. I believe this would be more convenient to all concerned.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Sharp, do you have any introductory comments to make to us about this Westbank matter insofar as it may pertain to the legislative authority either of this Committee, Parliament or your own responsibilities as Minister.

The Hon. M. SHARP (*Minister of Finance*): Mr. Chairman, I have no preliminary comments to make. I would be very happy to answer any question that the members of the Committee may have arising out of the testimony given by Mr. Coyne and Mr. Stevens.

The CHAIRMAN: I will ask the members to signify to me in the usual way. I see that Mr. Mackasey has indicated his desire to ask a question. I hope the others will not be shy so that we will not have any question as to who is being recognized and when. I now see Mr. Cameron, followed by Mr. Fulton.

Mr. MACKASEY: I have one or two questions. Mr. Sharp, there has been considerable reference made here to a Treasury Board order pertaining to the Bank of Western Canada. At any time were you contacted directly for an interpretation of what this Treasury Board order really meant?

Mr. SHARP: No, Mr. Chairman. As I said in the House of Commons, in reply to similar questions yesterday, I volunteered some comments upon the meaning of that order and about the conditions under which I might exercise my discretion, but I was not asked for such an interpretation.

Mr. MACKASEY: Would you like to volunteer those comments again, right now?

Mr. SHARP: Yes. The terms of this order prohibit the Bank of Western Canada, directly or indirectly, from making any of its funds available to any of the preferred shareholders without the prior approval of the Minister of Finance. The terms of the order make it clear, I believe, and if there is any doubt about it I am clarifying the point now, that such approval was intended to be given only under very special circumstances or very exceptional circumstances. If I were asked—which I have not been—to approve an exception I would only give my consent if I were satisfied that there was no risk of loss to the bank, either its creditors or its shareholders.

Mr. MACKASEY: Could you give us an example of a very exceptional circumstance?

Mr. SHARP: May I give an additional explanation that may help to explain why there is any discretion in the order at all.

The terms of this order, of necessity, were not drawn to deal with a specific known transaction but designed to cover a wide range of possible situations that might develop at some time in the future. In addition, the words "directly or indirectly" are included in the prohibition section. The result is that the order prohibits a much wider range of transactions than the statements of intention which were made in committee by the applicants for a charter. It was felt that the language used might be found, on some occasions, to create a legal roadblack to a transaction to which no reasonable objection could be taken, either because of its nature or the fact that it was a very small transaction, and it seemed, therefore, desirable that there should be some element of flexibility in the arrangements.

Mr. GRÉGOIRE: May I ask a supplementary?

The CHAIRMAN: Would you yield for a supplementary question, Mr. Mackasey?

Mr. MACKASEY: Surely.

Mr. GRÉGOIRE: Mr. Sharp, you would then agree to any transactions between the Bank of Western Canada and BIF under the condition—and you would have to assure yourself of this—that there would be no loss for the shareholders or the clients of the bank? Would that be the only problem you would take into consideration?

Mr. SHARP: That is right. I want to make it clear, however, that the prohibition in the law to which there is some exception which I can grant, was intended, in fact, to prevent loans from the Bank of Western Canada to the preferred shareholders. That was the intent and that is the spirit in which the order will be administered.

Mr. MACKASEY: In other words, sir, if there was a change of heart or a change of policy by the directors of the majority shareholders or the directors of the western bank, this safeguard is built in to protect the average small depositor in Canada who would buy shares in the western bank?

Mr. FULTON: Mr. Sharp, you used a word which I expect you would like to correct. You said to prevent loans to preferred "shareholders"—I think you meant preferred "subscribers".

Mr. SHARP: Is that what they are called in the order, Mr. Fulton? Are they called subscribers?

Mr. FULTON: Yes.

Mr. SHARP: I am sorry; the word "subscribers" is in the order but "shareholders" they now are. They were then subscribers and they are now shareholders.

Mr. MACKASEY: Mr. Chairman, I will leave this for your decision because I am not sure that this is the appropriate time to make this comment. I was intrigued at the description of a transaction whereby financial institutions can obtain loans at the rate of 8 per cent, but I am not sure that this is the appropriate time to bring it up. I will leave this decision in the hands of the

Chairman and if he decides it is, I would like to get your view points on this type of transaction. I do not know if you are familiar with it but Mr. Chairman is. Do you think this is an appropriate time to ask this question, Mr. Chairman?

The CHAIRMAN: Certainly we are engaged in a general consideration of matters which may assist us in reporting to the House on the Bank Act. This transaction has awakened quite a bit of interest on the part of the Committee but I think that we should, first, assure ourselves that Mr. Sharp is familiar with the exact item we are discussing.

I believe that you were referring to the information given us by Mr. Stevens, that his BIF group obtained funds from the chartered banks through the sale and re-purchase of security in a way which he claims reflected the cost of borrowing of 8 per cent. Have I summarized the—

Mr. MACKASEY: Yes; I am not concerned about the 8 per cent; I am concerned about the fact that somewhere along the transaction these assets are temporarily completely in the possession of the bank. I am not too concerned if banks are involved, but I am just wondering about the propriety, or the wisdom, in view of some of the problems we have had with financial institutions. I am not referring to BIF, because Mr. Stevens assured us that his transactions had been completed in both directions. I am a little concerned, however, about the wisdom of this type of transaction when it takes place between groups such as the BIF group and other organizations rather than between chartered banks.

Mr. SHARP: Mr. Chairman, as Minister, I have a general rule that I do not answer hypothetical questions.

Mr. MACKASEY: When they cease to be hypothetical you have to answer them, sometimes unfairly.

Mr. SHARP: Yes; but I would like to see the transaction. As I understand it, this was not in breach of the law in any way.

Mr. MACKASEY: I am being unfair to the BIF group, because I am not too concerned about that particular transaction; but I am concerned about this particular type of operation that I gather goes on.

The CHAIRMAN: May I interject at this time? I think it is quite in order to ask Mr. Sharp, as you yourself have suggested, what are his views on the transaction that actually took place in so far as it may have contravened government policy or government legislation. However, to ask him to deal with hypothetical questions puts him in a position of having to contravene his own rule of thumb, which I think is quite sound.

Mr. SHARP: Mr. Chairman, I have no intention of answering questions of a hypothetical character. I say this to Mr. Mackasey as a friendly colleague in the House of Commons.

Mr. MACKASEY: I hope that you do not interpret my questions as being unfriendly. I am concerned about the average depositor, who does not buy bank shares, but who puts his money in financial institutions, with which we have had some unfortunate incidents, as you are aware.

You have also expressed your opinion, quite properly, that you fully intend, as Minister of Finance, to close every possible loophole that makes these invest-

ments speculative. I consider that this could possibly be one type of transaction against which the Canadian people should be safeguarded.

I am not an expert in the field. May I just finish by asking if you would look into this specific transaction to see if it can be a potential source of danger to the average depositor in an institution if it is applied more widely?

Mr. SHARP: To that question I will give an unequivocal Yes.

Mr. MACKASEY: In view of that, I will gladly hand over the questioning to someone else.

The CHAIRMAN: I have on my list Mr. Cameron, followed by Mr. Fulton and Mr. Monteith.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, Mr. Mackasey has asked the questions that I was going to ask. However, there is one that I would ask. I do not know if the Minister will call it hypothetical, but I do not think it is.

In view of the developments that have taken place I was wondering if the Minister is still happy at having included his discretionary powers in the Treasury Board order?

Mr. SHARP: Yes, Mr. Chairman; if I had to do it over again, even after the discussions that have taken place here, I would still include this discretionary power; because, as I said, the order was drawn up in a much more comprehensive way than even had been contemplated by the sponsors of this bank when they applied for a charter.

We wanted to be sure that we did include all kinds of transactions, whether they took place directly or indirectly; and that being so, since we could not forecast all the kinds of transactions that might occur, it seemed to us essential that the Minister of Finance should be able to approve of transactions that had no adverse effect, either upon the public interest or upon the security of depositors in that bank, or of its shareholders.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And is it only for those five clauses of the Treasury Board order were drafted you considered that those consisted of undesirable transactions?

Mr. SHARP: I did.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And it is only for those undesirable transactions that you have discretionary powers to grant exemption?

Mr. SHARP: Yes; because the terms are so broad that to have prohibited every transaction of this kind, whether it took place directly or indirectly, might have imposed an undesirable restriction upon the activities of the bank. And, as I say, if I had to do it over again, notwithstanding the revelations, or the testimony, I would do the same thing again. I believe that it is in the public interest that there should be some discretion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Thank you, that is all.

Mr. FULTON: Mr. Sharp, the Bank of Western Canada now has a charter, of which the Treasury Board minute No. 658534, which has been referred to is a part?

Mr. SHARP: You will recognize, sir, that this is made pursuant to the charter—made in accordance with its terms.

Mr. FULTON: And by the provisions of the Bank Act the bank has to operate within the limits of the Treasury Board minute; because an order of this sort is contemplated by the Bank Act.

Mr. SHARP: That is right.

Mr. FULTON: My point is that, when issued, it becomes in effect a part of the over-all charter, or limits, within which the bank can operate?

Mr. SHARP: I agree.

Mr. FULTON: Have you had from the Inspector General, or have you heard, as a result of the evidence given in this committee, any report which would suggest to you that the Bank of Western Canada is operating outside of, or in contravention of, its charter in the sense which I have used the word "charter".

Mr. SHARP: No; the Inspector General of Banks has given me no such report.

Mr. FULTON: As a result of reports to you of the evidence given here have you any reason to believe that the bank is operating, or attempting to operate, outside the limits of its charter?

Mr. SHARP: I can only answer the first part of the question. I have no information that it was operating outside of the terms of its charter. Certainly if it did attempt to do so those efforts would be frustrated. I have no reason to believe that it is even attempting to do so.

Mr. FULTON: Have you heard, or had reported to you, with respect to the evidence given in this committee, anything which, in your opinion, as the responsible minister, calls for action by any public authority, including Parliament?

Mr. SHARP: I do not think, Mr. Chairman, that I would recommend, as a result of any evidence reported to me, any action by Parliament. The Inspector General of Banks, however, has taken some precautionary steps of which I approved. Perhaps the committee might be interested in knowing what those are, and I will ask the Inspector General of Banks to speak on this matter. He is under a prohibition about talking in public about his activities, but I have authorized him to make a statement.

The CHAIRMAN: I think that is quite in order.

Mr. SCOTT: Thank you, Mr. Chairman.

On the 24th of January, 1967 I had made a complete inspection of the books and records of the Bank of Western Canada. I found the bank to be in a perfectly sound financial condition.

Subsequent to that I made arrangements to receive a detailed weekly report of the assets and liabilities of the bank, which I have been receiving and which continue to indicate that the bank is in a perfectly sound financial condition.

Following these statements by certain directors of the bank, indicating that there was a serious difference of view on how the bank should operate, I requested the president of the bank to confine the investment and reinvestment

of the bank's moneys to short-term government of Canada securities and deposits with chartered banks. This is, of course a short-term approach to the problem until this situation is clarified.

I further asked that any commitments on expenditures to be made during this period should be restricted to the anticipated rate of earnings on the present funds of the bank, again as a short-term approach.

Mr. FULTON: Mr. Sharp, you told us that nothing that you have heard would lead you to make any recommendations to Parliament, or to this Committee, and we now have a report of the precautionary measures taken by the Inspector General.

What would be your answer to my suggestion to you that surely now the most important thing for the Board of Directors of the bank is to solve these problems and get on with the operation of the bank as a bank serving western Canada, while we turn our attention to other matters here?

Mr. SHARP: Without taking sides in this issue, Mr. Chairman, I am inclined to agree. I believe that the most useful thing that could happen now would be for the Bank of Western Canada to begin operating and to settle its internal disputes.

I am very much interested, as a former westerner in having another chartered bank and I would like to see it owned as extensively as possible in Western Canada. I am not, as Minister of Finance, in a position to recommend its shares, however.

The CHAIRMAN: One way or another.

Mr. SHARP: One way or another. I do believe that it would be a useful addition to the number of the chartered banks to have one that felt that it had a special place as a bank of western Canada, with a special interest in the problems of that part of Canada.

Mr. MONTEITH: Mr. Chairman, I do not know whether or not you will rule this hypothetical, but evidence was given by Mr. Stevens to the effect that consideration had been given at a meeting at some stage to whether or not it might be advisable for the new bank to buy the assets of Simcoe Finance, I think it is called, which has a consumer-loan business.

The evidence was that the discussion apparently hinged on whether or not this would be a good business for the bank to be in. It had been suggested that it would be the nucleus of a consumer-owned business to be run by the bank, which most other banks do run.

I was wondering in an instance like this, if you would care to express an opinion on whether or not this would come within the terms of section 2(f) of the Treasury Board minute as something that would be logical for the bank to do, commencing business as it is?

Mr. SHARP: Mr. Chairman, to some extent this is also a hypothetical question.

Perhaps I could go as far as to say that it would not, I think, be contrary to any sound principles of management for such a transaction to be approved. I would want to be satisfied, however, about the exact nature of the portfolio that

was being taken over by the bank. The reason for my saying that I do not think it could be opposed in principle is that in some respects the other chartered banks have been operating on this principle, when one considers the subsidiaries that were established by the chartered banks to engage in mortgage lending in advance of the approval of the enlarged powers of the banks that are now before us.

I understand, for example, that the Kinross Corporation was really established by the bank that owns it for the purpose of getting some experience and accumulating a portfolio that could, in due course, be taken over by the bank if and when Parliament authorizes the banks to invest in conventional mortgages.

As a strict business proposition I would think that the Bank of Western Canada would be wise, in terms of the interests of both the depositors and the shareholders, to do some preparatory work of this kind in the hope, if not the certainly, that such a transaction, namely the taking over by the Bank of Western Canada of this portfolio, would be approved by the Minister; but I cannot guarantee that such a transaction would be approved. I would want to be satisfied.

Mr. MONTEITH: That is, on the price of the folio, and this sort of thing?

Mr. LAMBERT: Would you agree to the principle.

Mr. SHARP: The principle is certainly one that I would not rule out, on principle.

Mr. MONTEITH: That is all, Mr. Chairman.

Mr. MORE (*Regina City*): Mr. Chairman, I have another question which I do not think is hypothetical, I think it is direct. Do any of the prohibitions in the Treasury Board order prevent any of the BIF group from using the Bank of Western Canada for clearing facilities? Would this require ministerial approval?

Mr. SHARP: I shall have to ask my expert adviser, the Inspector General of Banks, to answer that.

Mr. MORE (*Regina City*): This question was raised, and I think it is a very direct question.

Mr. SHARP: I am not sufficiently expert to answer that.

Mr. SCOTT: I think that the only aspect of this that would be interfered with by the present Treasury Board order would be the possibility that in acting as clearing agent an overdraft might be created; that there might not be sufficient funds on deposit with the Bank of Western Canada to meet that clearing, and that temporarily the bank would be in the position of extending credit. this, of course, would come within the terms of the order, but as a service transaction it would not seem to me to be banned.

Mr. MORE (*Regina City*): Is there a prohibition here against deposits by any of these associated companies in the Bank of Western Canada?

Mr. SCOTT: No.

The CHAIRMAN: Do you have further questions Mr. More?

Mr. MORE (*Regina City*): No, Mr. Chairman.

The CHAIRMAN: Are there further questions to the Minister on this particular aspect of our considerations, namely, the Bank of Western Canada?

Mr. MACKASEY: I had one supplementary question that I thought might have come up on the question of the 10 per cent foreign ownership.

Would you like to state concisely your opinion of this particular transaction, Mr. Sharp? Is there anything particularly wrong with the whole 10 per cent being in the hands of one particular group in the United States?

Mr. SHARP: It would certainly not be illegal. I would not like to recommend it. And, I am sure, all members of this Committee would like to see Canadian Banks owned by Canadians. However, it is well within the law.

Indeed, as the Committee knows, the rules will be somewhat modified if and when the amendments to the Bank Act are approved, and I do not think that we should apply a stricter rule to the Bank of Western Canada than we would apply generally to other Canadian owned banks.

Mr. MORE (*Regina City*): This is a supplementary question. You have heard Mr. Coyne's proposal to the Committee that the restriction should be maintained at 10 per cent rather than increased to 25 per cent. Would you want to give your view on that to the committee?

Mr. SHARP: I have not had any convincing arguments that there should be a special rule for the Bank of Western Canada.

The CHAIRMAN: We appear to have no further questions for the Minister.

Mr. GRÉGOIRE: In other words, in all this there is nothing wrong, legally or financially?

Mr. SHARP: I have not heard of any evidence given here that points to illegality.

That is the only answer I can give.

Mr. GRÉGOIRE: No illegal or unsound transactions were mentioned here?

Mr. SHARP: You are asking another question now. I would not say that the Royal Bank of Canada has not occasionally engaged in unsound lending practices, or any bank for that matter. The Royal Bank happens to be the bank I bank with.

The CHAIRMAN: You are not referring to its relations with you, it seems.

Mr. SHARP: After all, I have been a customer of the Royal Bank for a long time. I feel I can speak freely about it!

The CHAIRMAN: Gentlemen, we appear to have completed our questioning of the Minister on this issue.

I recommend that we recess till 3.45 p.m., at which time we will begin our hearings on the deposit insurance bill. After hearing from the Minister and his officials we will go on to the clause-by-clause consideration of it.

We will recess until 3.45 p.m.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-1967

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 46

THURSDAY, FEBRUARY 9, 1967

FRIDAY, FEBRUARY 10, 1967

Respecting

BILL C-261

An Act to establish the Canada Deposit Insurance Corporation.

WITNESSES:

The Hon. Mitchell Sharp, Minister of Finance; Messrs. R. Humphrys, Superintendent of Insurance; W. E. Scott, Inspector General of Banks, and J. W. Ryan, Director of Legislation Section, Department of Justice.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25714—1

SECRETARY
MAY 1 4 1968
DEPARTMENT OF FINANCE

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Chrétien,
Clermont,
Coates,
Comtois,
Davis,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Latulippe
Leboe
Lind,
Macdonald (*Rosedale*),
Mackasey,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Wahn—25).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

FRIDAY, February 3, 1967.

Ordered,—That Bill C-261, An Act to establish the Canada Deposit Insurance Corporation, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25714—1½

REPORTS TO THE HOUSE

FEBRUARY 10, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

NINETEENTH REPORT

Your Committee has considered Bill C-261, An Act to establish the Canada Deposit Insurance Corporation, and has agreed to report it with the following amendments:

Clause 5

(a) Immediately after sub-clause 2, add the following:

"(3) A vacancy on the Board of Directors does not impair the right of the remainder to act."

"(4) Where the office of Chairman is vacant, the Minister may appoint, for a period not exceeding ninetty days, an acting Chairman who shall, while so acting, be a member of the Board of Directors and have and exercise all the powers of the Chairman."

(b) Re-number present sub-clause (3) as sub-clause (5).

Clause 14

Strike out sub-clause (5) and substitute therefor the following:

"(5) This section shall come into force on a day to be fixed by proclamation of the Governor in Council."

Clause 17

Strike out sub-clause (2) and substitute the following therefor:

"(2) A contract of deposit insurance with a provincial institution shall be evidenced by an instrument in writing."

Clause 22

Strike out line 13 on page 10 and substitute therefor the following:

"Corporation may require; and the Corporation shall cause an examination of the affairs of the company to be made at least once in each such year."

Clause 36

Immediately after sub-clause (2), add the following:

"(3) In carrying out its functions under this Act, the Corporation may, with the approval of the Minister, make use of the personnel, facilities and services of the Department of Insurance and the Department of Finance to any extent not incompatible, in the opinion of the Minister, with the administration of those Departments."

Clause 45

Delete clause 45.

Respectfully submitted,

OVIDE LAFLAMME,
Vice-Chairman.

FEBRUARY 14, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTIETH REPORT

On February 10, 1967, your Committee reported on Bill C-261, An Act to establish the Canada Deposit Insurance Corporation.

A copy of the Minutes of Proceedings and Evidence respecting this Bill (Issue No. 46) is tabled.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, February 9, 1967.
(94)

The Standing Committee on Finance, Trade and Economic Affairs met at 4:05 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Fulton, Gray, Laflamme, Latulippe, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*) (10)

Also present: Mr. Thompson.

In attendance: The Hon. Mitchell Sharp, Minister of Finance; Messrs. R. Humphrys, Superintendent of Insurance; W. E. Scott, Inspector General of Banks; and J. W. Ryan, Director of Legislation Section, Department of Justice.

The Committee proceeded to consideration of Bill C-261, An Act to establish the Canada Insurance Corporation.

On clause 1

The Minister made an opening statement and was questioned. He was assisted in answering questions by Messrs. Humphrys and Ryan.

At 6:05 p.m. the Committee adjourned until 8:00 p.m. this day.

EVENING SITTING
(95)

The Committee resumed at 8:20 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Basford, Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Davis, Fulton, Gilbert, Gray, Laflamme, Latulippe, Macdonald (*Rosedale*), Mackasey, McLean (*Charlotte*), More (*Regina City*), Munro, Wahn (15)

Also present: Mr. Thompson.

In attendance: The same as at the afternoon sitting.

On motion of Mr. Macdonald (*Rosedale*), seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

Resolved,—That the Committee cause to be printed 1500 copies in English and 700 in French of the Minutes of Proceedings and Evidence relating to Bill C-261.

Questioning of the Minister was resumed. He was assisted by Messrs. Humphrys, Scott and Ryan.

Clause 1 was carried.

Clauses 2, 3 and 4 were carried.

On clause 5

On motion of Mr. Wahn, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 5 be amended as follows:

(a) Immediately after subclause (2), add the following:

"(3) A vacancy on the Board of Directors does not impair the right of the remainder to act."

"(4) Where the office of Chairman is vacant, the Minister may appoint, for a period not exceeding ninety days, an acting Chairman who shall, while so acting, be a member of the Board of Directors and have and exercise all the powers of the Chairman."

(b) Re-number present subclause (3) as subclause (5).

The clause, as amended, was carried.

Clauses 6 to 13 inclusive were carried.

On clause 14

On motion of Mr. Wahn, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 14 be amended by striking out subclause (5) and substituting therefor the following:

"(5) This section shall come into force on a day to be fixed by proclamation of the Governor in Council."

The clause as amended was carried.

Clause 15 was carried.

On clause 16

Moved by Mr. Fulton, seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

That clause 16 be amended as follows:

1. By deleting paragraph (a);
2. By re-numbering paragraphs (b) and (c) as paragraphs (a) and (b) respectively.

After discussion, and the question having been put, the proposed amendment was negatived on the following division: Yeas, 6; Nays, 7.

Clause 16 was carried, on division.

On clause 17

On motion of Mr. Wahn, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 17 be amended by striking out subclause (2) and substituting the following therefor:

"(2) A contract of deposit insurance with a provincial institution shall be evidenced by an instrument in writing."

Clause 17 was carried, as amended.

Clause 18 was carried.

On clause 19

Moved by Mr. Fulton, seconded by Mr. Monteith,

That paragraph (1) of clause 19 be amended by deleting sub-paragraph (b) thereof and substituting therefor the following:

"(b) in the case of such deposits as are deposited with the member institution as of the 30th day of April in that year and insured by the Corporation

(i) one-thirtieth of one percent of the first fifty percent thereof;

(ii) one-fortieth of one percent of the next twenty-five percent thereof;

(iii) one-fiftieth of one per cent thereafter."

After discussion, the Committee agreed to postpone further consideration of the amendment until the meeting of Friday, February 10th.

At 10:10 p.m. the Committee adjourned until 10:00 a.m., Friday, February 10, 1967.

FRIDAY, February 10, 1967.
(96)

The Standing Committee on Finance, Trade ane Economic Affairs met at 10:00 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Davis, Fulton, Gray, Irvine, Laflamme, Macdonald (*Rosedale*), Mackasey, McLean (*Charlotte*), More (*Regina City*) —(11)

Also present: Mr. Thompson.

In attendance: The Hon. Mitchell Sharp, Minister of Finance; Messrs. R. Humphrys, Superintendent of Insurance; W. E. Scott, Inspector General of Banks; and J. W. Ryan, Director of Legislation Section, Department of Justice.

The Committee resumed consideration of Bill C-261, An Act to establish the Canada Insurance Corporation.

With the consent of the Committee, Mr. Fulton withdrew his proposed amendment.

Clause 19 was carried.

Clauses 20 and 21 were carried.

On clause 22

On motion of Mr. Chrétien, seconded by Mr. Mackasey,

Resolved,—That clause 22 be amended by striking out line 13 on page 10 substituting therefor the following:

"Corporation may require; and the Corporation shall cause an examination of the affairs of the company to be made at least once in each such year."

The clause, as amended, was carried.

Clauses 23 to 35 inclusive were carried.

On clause 36

On motion of Mr. Chrétien, seconded by Mr. Mackasey,

Resolved,—That clause 36 be amended by adding the following immediately after subclause (2):

"(3) In carrying out its functions under this Act, the Corporation may, with the approval of the Minister, make use of the personnel, facilities and services of the Department of Insurance and the Department of Finance to any extent not incompatible, in the opinion of the Minister, with the administration of those Departments."

The clause was carried, as amended.

Clauses 37 to 44 were carried.

On clause 45

On motion of Mr. Chrétien, seconded by Mr. Mackasey,

Resolved,—That clause 45 be deleted.

The title and the Bill, as amended, were carried.

Ordered,—That the Chairman report the Bill, as amended, to the House.

The Minister thanked the Committee for giving priority of consideration to the Bill.

At 10:40 a.m. the Committee adjourned until Tuesday, February 14, 1967, at 11:00 a.m.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

THURSDAY, February 9, 1967

The CHAIRMAN: Gentlemen, we are in a position to resume our meeting.

We are here this afternoon to hear evidence from the Minister of Finance, the Inspector General of Banks and the Superintendent of Insurance, on the act to establish the Canada Deposit Insurance Corporation.

I think the best way to begin would be to invite the Minister and/or his officials to make an opening statement, if he so sees fit, and then we will proceed to our questioning.

Mr. SHARP: Thank you, Mr. Chairman. May I thank you also for the way in which you have responded to my suggestion of the other day that some priority be given to this bill?

On February 3 in the House, on second reading of the bill, I gave a description of its general purpose. Its primary objective, of course, is to ensure the safety of the deposits of small investors who are usually not in a position to judge for themselves the financial soundness of the institutions to which they entrust their savings. Its second purpose is to provide a lender of last resort facility for deposit accepting institutions, providing needed liquidity at times of crisis. The third, and perhaps the most essential provision, is that institutions taking advantage of the insurance will be subject to inspection. Those, Mr. Chairman, are the general purposes of the bill that is before you.

In my remarks on February 3 I drew attention to the fact that the government had changed its order of priorities with respect to the introduction and passage of this bill. Originally, the government had felt that it should proceed in a much more leisurely fashion to bring this legislation into existence.

As a result of our consultations with the provinces, however, it has been made clear to us that the provinces—nine of the provinces at least—are happy that we are introducing this legislation and have urged us to proceed as soon as possible with its enactment, and in the House itself that attitude has been supported on all sides.

One of the problems that arises is that even after the legislation does come into effect procedure must be established for bringing institutions under insurance. As far as federally inspected or federally controlled institutions are concerned, there is no particular problem. We could, because of what we know about these federally controlled or inspected institutions, bring them under insurance without delay. In the ordinary course of events, however, it would have been, perhaps, more prudent to have brought provincial institutions under insurance only after they had been inspected. But, as I said in my speech on second reading, it seems to us that it would be undesirable for federal institutions to be insured earlier than insurance would be available to provincial institutions.

So, to expedite making insurance available to provincial institutions, it is contemplated that the corporation would be prepared to cover all the existing deposit-accepting trust and loan companies of a province if the province concerned so requested, even before the corporation has made an examination into the affairs of the individual companies and ascertained whether they were eligible for insurance.

Then, I went on to say:

> The provinces will be expected in return to enter into appropriate financial arrangements to ensure that any losses which occur as a result of the deposit insurance scheme having become effective prior to inspection will not become the obligation of those institutions which are in a sound position and are contributing to the deposit insurance fund.

This, as I said, would simply be a recognition by the provinces of their responsibility for provincially incorporated institutions prior to the application of federal deposit insurance.

I have written to the ministers of all the provinces bringing the bill to their attention and also these remarks that I have just quoted.

The CHAIRMAN: Thank you, Mr. Sharp. Gentlemen, I think it would be in order now for us to begin our discussion with the Minister and, in so far as he wishes, with the officials who are accompanying him. I might add that at the witness table, in addition to the two gentlemen I have mentioned, is Mr. Ryan of the Department of Justice.

Mr. SHARP: Mr. Chairman, may I say that we have some minor amendments to propose to the bill which is before you, but they are not matters of substance and I think they can be left over until clause by clause discussion.

The CHAIRMAN: Gentlemen, may I suggest that we proceed in this fashion: First, that we have our comments and questions of a more general nature on clause 1, with detailed questions on the specific clauses unless, of course, the Committee feels that it would be more conducive to careful and expeditious study of the matter to try to deal with all the questioning in the same box, so to speak. My only concern is to avoid what some members might consider repetition. Let us just attempt to have all our questioning at this general stage. Certainly I will use my discretion if, during the calling of the clauses, there seems to be repetitious questioning. Who would like to begin? I recognize Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I would like to ask two questions. One is with regard to the provincial institutions in British Columbia, for instance. We understand the premier is now going to make it compulsory for them to enter the deposit insurance system. Will the corporation be obliged to accept all provincial institutions without inspection?

Mr. SHARP: Mr. Chairman, the position is this: If the province will accept responsibility for losses occurring before we have had an opportunity of inspecting these institutions, we would comply with a request by them to bring their institutions under insurance immediately. On the other hand, if the province did not want to accept that responsibility, it would still be open to the province to compel their institutions to be insured when we have had an opportunity of inspecting them. There are two possible situations.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not know whether you are in a position to tell us, Mr. Sharp, but have any of the other provinces indicated that they would like to follow the same course as British Columbia?

Mr. SHARP: The Ontario minister, Mr. Rowntree, said in his speech when introducing this legislation, as I understood it—I have not seen the record—that he was going to require all Ontario companies to join the federal scheme once it is in effect because he believes this problem can be handled more efficiently on a national basis than on a provincial basis.

However, there are really two separate possibilities here. There are two kinds of laws that might be passed by a province. First, one that compels any institution taking deposits to be federally insured. Second, to require all the institutions incorporated in that province to be federally insured. Of course, I cannot speak for either British Columbia or Ontario at the moment without having seen exactly what the spokesmen for those provinces said.

The CHAIRMAN: The next speaker is Mr. Laflamme, followed by Mr. Fulton.

Mr. LAFLAMME: Mr. Sharp, you have referred to letters you sent to every province regarding this bill. Will you tell us whether you received any answers to those letters?

Mr. SHARP: There would not have been time to receive an answer.

Mr. LAFLAMME: I see.

Mr. FULTON: I appreciate the necessity for and desirability of dealing with this as expeditiously as possible but, as I said in the House—and as Mr. Lambert has said—there are several provisions now in the bill which give rise to such reservations that it is very difficult to co-operate with that request, but I will do my best.

Mr. Sharp, you know our opinion that you could have done nearly all, if not all, of this without making adherence by the provincial institutions voluntary. I am not so much interested in that now, but I am interested in why you feel it necessary to go further and provide that they only can become a member institution if the government of the province in which they are incorporated consents.

Mr. SHARP: Mr. Chairman, the reason for putting in the provision that the institutions must have the approval of the province before making application is to avoid any possible conflicts or disputes which would result in this legislation not coming into effect. If we had asserted that our jurisdiction in this field applies to provincial institutions and that had been challenged, then the legislation could be held up in the courts and not come into effect as quickly as I think it should over as broad a range of companies as want to come in, or as the provinces give them permission to come in.

Mr. FULTON: Remember the distinction I made; At the moment I am not concerned about why you did not make it compulsory for these provincial corporations; I am only asking why you provided that the government of a province must consent. It is on that basis that I would put this further question: Do you not agree that if you made it voluntary—you cannot compel them to join—whether or not they were provincially incorporated, and regardless of the provincial regulations they may have to comply with, there would be no consti-

tutional or legal obstacle to their becoming members of this scheme, which is set up with unquestioned jurisdiction of the federal parliament and is then made available to corporations all across Canada? Most of the provinces will then say: "No, you cannot voluntarily subscribe?"

Mr. SHARP: Mr. Chairman, the reason was an effort on our part to reduce any possible conflicts to an absolute minimum. I am quite frank in saying that we have reason to believe that the entry of the government into this field might arouse some opposition. For example, a trust company in a province might wish to take advantage of this scheme and its action might lead to conflict between the federal and the provincial governments arising out of the federal government's offer to insure those deposits without the permission of the provincial government. This was an effort on our part to reduce any possible conflicts to a minimum and to invite the provinces to co-operate with us.

Mr. FULTON: Do you not agree that by putting in that provision requiring the consent of the provincial government before the adherence of a provincially incorporated company to this federal scheme may become effective, you have, in fact, admitted—indeed, created—an element of jurisdiction in the province which they do not now have by giving them, in effect, a veto over the extent of the operation of a federal scheme.

Mr. SHARP: Mr. Chairman, the action of the province of Ontario today in approving legislation in this field would seem to indicate with respect to provincial companies that a province does have authority to put in an insurance scheme on deposits. That would be my view as a horseback lawyer. Therefore, it seemed to us better to proceed by agreement. Fortunately, in the case of Ontario, the advantages of having a federal scheme have appealed to them and they are going to require their companies, which might be insured temporarily under a provincial scheme, to join the federal scheme. They agreed that this is a matter that can be handled with greater advantage on a national basis than it could be on a provincial basis. For example, in its proposed scheme the province of Ontario would, in fact, be insuring deposits of Ontario companies in British Columbia. Now, I do not know whether that could be challenged or not but certainly it is not a normal activity of a provincial government; so, because of what I would consider these overlapping powers, it seemed to me highly desirable that we should proceed by agreement rather than to court conflict.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Sharp, do I understand you to suggest that the action contemplated by the Ontario government establishes the right of a province to legislate in this field? You say yourself that if, for instance, they insured the operations of companies in another province this would be an unusual field for them to enter. Do they establish their right by passing legislation of this sort? Should it be allowed to go unchallenged?

Mr. SHARP: Well, I hope, Mr. Chairman, that this will not be a practical issue. The province of Ontario, as I understand the statements of the Ontario minister, does not want Ontario to continue in this field because of the fact that Ontario companies do operate outside the province of Ontario. It is not for me to say whether the Ontario legislation would be invalid in so far as it affected the insurance of deposits outside the province of Ontario. Obviously, it is much more efficient and much more in accord with the facts of the situation to have such insurance provided on a federal basis. Certainly I would think that the province

of Ontario would have the right to insure deposits within the province of Ontario by Ontario companies.

Mr. FULTON: I want to follow that up. My objection to this is that I fear—to use Mr. Cameron's words—the federal parliament, by putting that provision for consent in this legislation, will have established—or conceded, if you like—a jurisdiction which, in my humble submission, does not exist. Parliament will have created a jurisdiction in the provinces, and you are going to have all sorts of complications under similar situations and under this legislation in the future.

Indeed, I think it is a very serious question of whether the Ontario legislation, once this goes through, should not, indeed, be regarded as being inoperative. Because here you are in the field of banking; the taking of deposits is inescapably a part of the operation of banking over which federal parliament has jurisdiction. Perhaps there could be an argument that if the federal government does not exercise its jurisdiction in that field the provinces have a right to legislate under some other head, such as their authority over companies generally, but my understanding of the legal authorities is that once the federal government exercises its jurisdiction there can be no competing or conflicting legislation in the province under whatever other head it may seek to act, provided the federal government has acted within its jurisdiction. That does seem to me to raise serious questions of propriety. I do not mean to suggest that the Ontario government is doing something improper in the ordinary sense of the word, but I mean improper in the constitutional and jurisdictional sense of there being legis'ation on the Ontario statute books in this field when, at the same time, there is legislation on the federal statute books.

Mr. SHARP: Well, may I make this comment, because apparently I am not privileged to ask questions, although in this case we have such a distinguished member as a member of the Committee. Would this line of reasoning not lead to the conclusion that the province had no authority to grant to its companies the right to take deposits?

Mr. FULTON: In the absence of a definition of banking, I would be inclined to agree. I would not make a categorical assertion to the contrary but, once you define banking to include the taking of deposits, then I doubt very much if the provinces would have the right to legislate in that field.

The province would still have the right to legislate with respect to incorporation of companies within the province under the general companies acts, as I see it, and to provide whatever inspection in compliance with the making of returns, and so on, they want. They could not legislate directly in the field of deposit taking or deposit insurance.

Mr. SHARP: Mr. Chairman, I am not inclined to disagree with that statement. The fact is that Parliament has not yet enacted—if it ever will—legislation in relation to deposit taking institutions as such except what it is proposing to do now for the insurance of deposits. Therefore, I was simply making the point that the province now does have the power, I believe, to legislate with respect to its own companies on the taking of deposits which does not involve any conflict in the law, and I would have thought that it also had authority at the present time to insure those deposits if it so wishes.

Mr. FULTON: Yes, unil parliament acts to the contrary. But the federal parliament has not only the right to legislate to the effect that all companies

taking deposits are free to join our deposit insurance scheme. The federal parliament has that right—

Mr. SHARP: That is right.

Mr. FULTON:—and no province, in my view, could stop its companies from joining that scheme because we are legislating in the field of deposits which, I am satisfied, any court would hold as part of banking. But you go further than that. Not only do you stop short and say that they may join if they wish, but you go further and say that the province can stop them from joining if the province wishes, thereby creating, as I say, a jurisdiction that does not exist in the provinces.

Let me answer the other part of your concern, if I may. You said you feared that if this were not put in, conflicts might arise and the legislation might be challenged. I suggest to you, however, Mr. Sharp, that once this legislation went through, if a provincially incorporated institution became a member institution and applied, and its deposits were insured, that insurance would be in effect. It would not cease to be in effect unless the province both challenged the legislation and succeeded. If it did not succeed in its action in the courts in having it declared unconstitutional or ultra vires to the federal parliament, the insurance would continue to be in effect; so that I suggest that your fear for the efficacy of the legislation, simply because the provinces might challenge it, is not well founded.

Mr. SHARP: May I add one other point that has been brought to my attention by my officials. That is, whatever may be the scope of federal jurisdiction over banking under the British North America Act, it is not at all clear what forms of deposit taking activities would be considered banking, and if we were to proceed on the basis that we could only insure what would be regarded as deposits from a banking point of view, then it would be impossible, in this legislation, to give as broad a coverage to the insurance as we think is desirable and contained in this bill.

In other words, in this legislation we are not purporting to legislate about banking. We are establishing a system of deposit insurance, and whether all the deposits that we will insure would be considered part of banking business is quite a separate question.

Mr. FULTON: Well Mr. Sharp, I am afraid I must take issue with you again. I have not thought this aspect of it through; it had not occurred to me until you just raised it, but if you are not legislating under the federal jurisdictional heading of banking, I am again not satisfied. But I just cannot take this position categorically because I had not thought about it until you raised it, but there does not occur to me, at the moment, any head of federal jurisdiction that gives you the authority to enact this legislation except the federal jurisdiction over banking.

Mr. SHARP: I am informed by my legal advisers that this bill is within the competence of Parliament.

Mr. FULTON: Of course it is; there is no difference between us on that score at all. But to be within the competence of parliament, it must be under one of the established heads of federal jurisdiction and it seems to me that head is banking. This bill rests soundly on the federal jurisdiction in the field of banking but, in

my view, it contradicts in part, at least, the completeness of that jurisdiction by recognizing the jurisdiction that does not exist in the province.

Mr. SHARP: May I ask, Mr. Chairman, whether Mr. Ryan, who is here with me and who has given some consideration to this point, might speak?

Mr. J. W. RYAN (*Legislation Section, Department of Justice*Q: On which point, Mr. Chairman? With respect to the authorization of the province of incorporation, I would like to point out a grey area that does exist.

The CHAIRMAN: Do not blame this on me.

Mr. RYAN: These provincial institutions would be incorporated under the heading of a company with provincial objects. They would be authorized to carry out certain activities, including the ones that we are concerned about here, by their incorporating charter or their act, and they would also acquire in some cases all of their powers from that act, charter, or statute, depending on that type of jurisdiction they are in.

In some of these cases it may be beyond the powers of the company to take out insurance or to come into this scheme. In that area paragraph (a) would make provision for it; in other words you would not be dealing with a company that possibly was unable to enter into this type of contract. That is one point that I do not think has been canvassed yet as far as the authority of the province of incorporation is concerned.

On the matter of jurisdiction, I suggest this also could be supported by the fact that it is for the incorporation of a company with other than provincial objects. I suggest the objects go far beyond those of the province.

Mr. FULTON: The objects of this legislation?

Mr. RYAN: Of this incorporation.

Mr. FULTON: Yes, I agree.

Mr. RYAN: So, you can support it on that basis as well as any others that may be at hand.

Mr. FULTON: This act is surely an act that is only under an undisputed head of federal jurisdiction... I do not understand the application of the statement that you have just made, Mr. Ryan.

Mr. RYAN: The act proposes to establish a corporation, so it is an act for the incorporation of a company, and another justification for it is the incorporation of a company with other than provincial objects.

Mr. FULTON: I do not think we are on common ground here at all. I am not questioning the jurisdiction of the federal Parliament to enact this bill; far from it. I say it has power to go much further than it goes in this bill. I am questioning the propriety of this Parliament purporting to raise a provincial jurisdiction under subsection (a) which, in my humble submission, does not exist under the constitution.

Mr. RYAN: Mr. Chairman, the point I was trying to make on that matter is that a provincial trust company or loan company, or company carrying on that business under a general act as may exist in some provinces, would acquire its corporate capacity from the province.

Mr. FULTON: Yes.

Mr. RYAN: Now the corporate capacity would have to extend to its being able to contract in this connection.

Mr. FULTON: To make a contract for insurance with this Deposit Insurance Corporation. Is that your point?

Mr. RYAN: Yes.

Mr. FULTON: My answer to that is that if the company is in the business of taking deposits and the federal parliament legislates as to Canada-wide requirements which must be met by all companies taking deposits, in my view that is purely within the federal jurisdiction; the province could not stop its company from entering into that contract.

Mr. SHARP: Mr. Chairman, that is not what this bill is about. This bill is about the insurance of deposits, not about the taking of deposits.

Mr. FULTON: My point is that if you say that all companies who take deposits are required to insure with the Federal Deposit Insurance Corporation, in my submission no provincial government or power exists to prevent a deposit-taking corporation entering into a contract of insurance if it is made a requirement of the taking of deposits in Canada.

Mr. SHARP: Yes that may be, Mr. Chairman, but that is not what this legislation requires. We are not trying to go as far as that. Eventually that may be an act of this Parliament, but it is not one that is before us for consideration today.

Mr. FULTON: I realize that and I tried to stay off the ground; there are other grounds of difference between us. I think you should have made it mandatory, but it is not, and we have not time to change the legislation in that respect. I am seeking now to pursue my narrower, but very fundamental objection to this subsection (a) giving the provinces the jurisdiction, which I do not believe they have, and doing something which I do not think is necessary to the efficacy of your scheme. As I said, if you leave it purely voluntary—that is the present situation—and a provincially incorporated company takes advantage of that voluntary opportunity and enters into a contract of insurance, in my view the contract would be valid unless the legislation were to be successfully attacked. And even while the court case might be proceeding the contract still exists and the depositors are protected, unless the court should ultimately declare our legislation ultra vires. I think neither you nor I feel there is the slightest possibility of this happening.

The CHAIRMAN: Mr. Fulton, I will now ask Mr. Sharp or his officials to answer your last comment and then, perhaps, I should give the floor to the next person on my list, namely Mr. Macdonald.

Mr. SHARP: I think we had a good exchange on this; perhaps we can pursue it later.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, could I put a series of questions to Mr. Ryan, because I disagree fundamentally with Mr. Fulton's view of the law. Firstly, Mr. Ryan, surely it is the British North America Act rather than any act of the federal or provincial government which decides who, ultimately, has the right of jurisdiction. Neither the federal nor the provincial government can alienate that right by any law.

The CHAIRMAN: Do you agree with Mr. Macdonald's assertion that it is a question of constitutional law?

Mr. RYAN: I agree with that.

Mr. MACDONALD (*Rosedale*): Mr. Ryan, the federal government has jurisdiction over chartered banks which are one form of deposit taking institution. Is there any contest about that?

Mr. RYAN: There is no contest about banking or the incorporation of banks.

Mr. MACDONALD (*Rosedale*): The two federal statutes—the Trust Companies Act and the Loan Companies Act, both of which provide for deposit taking institutions—are equally within the competence of the federal government. Is there any contest on that point?

Mr. RYAN: They are within the competence of the federal Parliament. I do not know what the expression "equally" means.

Mr. MACDONALD (*Rosedale*): Is there a question of the jurisdiction of the federal parliament to pass those two acts and provide for that type of deposit taking institutions.

Mr. RYAN: There is no question that I know of, Mr. Chairman, but I may hesitate here and say that I am not sure that we are talking about the heading of banking.

Mr. MACDONALD (*Rosedale*): I agree with you there; I do not think they are covered under the heading of banking, either. You say it is a grey area; I say it may be a matter of sharp dispute.

A third type of deposit taking institution—if I may choose the laws of Ontario, because that is my own province—may be authorized by the Ontario statutes providing for Ontario trust companies or Ontario loan companies. Is there a question of the validity of the provincial legislation as it applies to that type of deposit taking institution?

Mr. RYAN: So far, this last type of business, Mr. Chairman, has been supported by the courts in Canada where it has been brought before them.

Mr. MACDONALD (*Rosedale*): So there is a legitimate provincial right.

Mr. RYAN: Yes, particularly in Manitoba. I think the case was mentioned here during the course of your hearing.

Mr. MACDONALD (*Rosedale*): So, there is a legitimate provincial right to legislate with respect to deposit taking institutions and that does not infringe on the federal power for banking?

Mr. RYAN: In the existing circumstances that appears to be so.

Mr. MACDONALD (*Rosedale*): You mean in the existing state of the law as it has been defined by the courts. The entire question of deposit taking, therefore, falls within the two jurisdictions. This entire field is not exclusive federal responsibility?

Mr. RYAN: At the present time, Mr. Chairman, both jurisdictions, if I can distinguish between province and federal, are exercising their authority to incorporate companies that have certain deposit taking powers.

Mr. MACDONALD (*Rosedale*): Is it also a legitime legal procedure for a jurisdiction, which may not have the power, to delegate responsibility for this area—not on a continuing basis, but so long as it extends the power—to an entity created by the other level of government? I am thinking of the Prince Edward Island potato market.

Mr. RYAN: Oh, yes, I know; you are thinking of delegation.

An hon. MEMBER: And his ear to a parliament.

The CHAIRMAN: The legislative body.

Mr. MACDONALD (*Rosedale*): I am talking in terms of an entity.

M. RYAN: Where there is concurrent jurisdiction.

Mr. MACDONALD (*Rosedale*): No, not necessarily; where there is no jurisdiction whatsoever in the federal government.

Mr. RYAN: May I attempt to answer that, Mr. Chairman. So far that has been done on a few occasions and, to the best of my knowledge, the recent efforts to do it have not been upset—that is, where the federal Parliament has delegated the exercise of some of its function to a body designated by the federal parliament.

The CHAIRMAN: Other than a legislative body.

Mr. RYAN: Yes, other than a legislative body, I have in mind the Motor Vehicle Transport Act.

Mr. MACDONALD (*Rosedale*): So that, given a doubt as to the entire authority over deposit taking institutions, if the provincial government by provincial legislation delegated the authority to insure deposits by the Federal Deposit Insurance Corporation this, in effect, would be a valid delegation under the constitution.

Mr. RYAN: I am not sure, Mr. Chairman, that we are in delegation here so much as this type of situation: The insurance of deposits can be considered in one respect as a business and if you, as a province, authorize that particular type of business, and there is no federal statute based on a federal head of jurisdiction that prohibits it, I do not see why a province could not continue to exercise the power to incorporate companies to insure deposits, even if it is a commercial company. It is only incorporating a company for provincial objects; carrying on a business in the province. Similarly, I think it is possible for the federal Parliament to incorporate a company to carry on the same business. We are not talking about defining deposits as being synonymous with banks; whether they are or not, I do not know.

Mr. MACDONALD (*Rosedale*): I gather from your responses and the look of agony on your face that it is not easy to decide where the jurisdiction lies and, given the legislative intention to do something about deposit insurance, there are then two choices before you: either to put it in the courts and wait five years until it is finally litigated, or to pass legislation which, with the consent of the provinces, will cover the whole field. As Mr. Fulton says, the deposit insurance legislation insuring deposits will be valid until it is declared not to be valid. Of course, the people who may have been insured on it will not be too cheerful in five years time if it is not valid. That should be to Mr. Sharp, and not to you.

Mr. SHARP: I believe, Mr. Chairman, notwithstanding what I consider to be the quite legitimate comments which Mr. Fulton has made, about the principle in this bill, there are two things: first of all, this is the practical way of proceeding now to get the maximum coverage with the least possibility of having our legislation challenged and thereby depriving many institutions and many depositors of the benefits. Secondly, I do not believe the provision that we have put in the act which requires these companies to get the approval of the provincial government before it can enter the federal scheme will in any way jeopardize the federal Parliament in deciding later how far it may want to extend its jurisdiction in the field of banking. Those are my opinions and I say this with respect.

Mr. FULTON: May I ask a supplementary question on this point? I think it is germane. What do you do immediately if a province says: No, we do not consent.

Mr. SHARP: That is a decision that province must answer for.

Mr. FULTON: This is surely leaving a very large gap—in my submission, an unnecessary gap—in the extent of your coverage. The objectives here we are all agreed upon.

Mr. SHARP: This seems to me, Mr. Chairman, to be essentially a political problem. I have every reason to believe that at least nine of the provinces will not only permit but will welcome the adherence of their companies to this scheme. I do not know the position of the tenth.

The CHAIRMAN: Mr. Macdonald would you yield for a further supplementary question from Mr. Laflamme?

Mr. LAFLAMME: I address this question to either Mr. Sharp or Mr. Ryan. It deals with clause 16(a). I do not really see the purpose of having the authorization from the province before provincially incorporated institutions take part in the federal deposit insurance scheme. It reads:

> The provincial institution is authorized—

Does a provincially incorporated institution really need the authorization of the province to get into the scheme?

The CHAIRMAN: That is Mr. Fulton's question.

Mr. SHARP: I say that a decision by provincial governments not to permit their companies to be insured is a decision they are taking with full knowledge of the consequences.

Mr. LAFLAMME: Can you foresee that those institutions who want to take part in our scheme may be federally incorporated?

Mr. SHARP: That could be.

Mr. MACDONALD (*Rosedale*): Mr. Sharp, may I just revert to a supplementary question asked by Mr. Fulton. He brought up the point that if a province fails to consent, then the institutions under provincial jurisdiction will not be covered and the objective will be defeated. The objective of the bill generally, I think, is to create confidence in investors in deposit taking institutions. Without the consent procedure, would the confidence of investors not equally be defeated if the entire matter were put into litigation?

Mr. SHARP: I believe so, Mr. Chairman.

Mr. MACDONALD (*Rosedale*): So, you have a dividing in the road; you have Mr. Fulton's choice of litigation, or the choice in this bill of the consent procedure whereby you avoid litigation?

Mr. SHARP: That is the general objective.

Mr. FULTON: I do not think the two alternatives are equal, though.

An hon. MEMBER: At equal rates.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would like my legal colleagues to see if they could answer—

Mr. MACDONALD (*Rosedale*): I think I still have the floor?

The CHAIRMAN: Yes, I assume you are yielding to Mr. Cameron.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I can see how a provincial government could take the matter to court if this bill extended the compulsory feature of deposit insurance to provincial institutions, but I cannot quite understand how they could take the matter to court if it were merely made available for provincial institutions to enter the scheme or not enter the scheme on their own volition. How could this be taken to court? What would the provincial government have to do in order to bring it before the courts?

Mr. SHARP: The provincial government, under those circumstances, might challenge the federal government because of its resentment against the actions of the federal Parliament in making this available, notwithstanding the wishes of that provincial government that it did not want one of its companies to enter the scheme.

Mr. FULTON: What would it challenge in that case; the right of the federal parliament to legislate?

Mr. SHARP: It might.

Mr. FULTON: Or the validity of the contract?

Mr. SHARP: It might; it could do a number of things.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): If that is the case I think we had better get at it as quickly as possible to get the matter settled. Personally, I cannot see the grounds on which a provincial government could institute legal proceedings.

Mr. MACDONALD (*Rosedale*): Let me put it to you this way, Mr. Sharp: Whether the jurisdiction be compulsory or optional, if the federal government, in fact, has no jurisdiction to legislate, then the legislation will be equally invalid.

Mr. SHARP: Yes.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I would like to go on to clause 10 of the bill referring to provincial institutions, particularly focusing on the wording—I have dropped some of the intermediate words—which reads as follows:

> ...a company that carries on, ...the business of a loan company within the meaning of the Loan Companies Act.

Perhaps this question might better be addressed to Mr. Ryan. Is that reference necessarily confined to companies incorporated under the equivalent provincial statutes? For example, in the case of Ontario, does that wording extend beyond the Ontario companies which are incorporated under the Ontario Loan Corporations Act?

Mr. RYAN: Mr. Chairman, the wording there is intended to go to the nature of the business, and it is done by reference to the description of the business set out in the two federal acts, the Trust Companies Act and the Loan Companies Act. The business of a trust company is very, very lengthy and you have to derive it from reading the Trust Companies Act.

M. MACDONALD (*Rosedale*): We are talking about deposit taking and I notice that in this bill "deposit" means a deposit as defined by the by-laws of the corporation. Do I understand that correctly?

Mr. RYAN: That is correct.

Mr. MACDONALD (*Rosedale*): Therefore, taking an institution like Prudential Finance, it would be within the competence of the corporation to define the notes issued by that corporation as a form of deposit taking?

Mr. RYAN: Mr. Chairman, I do not think the business of these companies would fit under the definition either of the Trust Companies Act of the Loan Companies Act. One situation I believe does occur, Mr. Chairman, is the fact that in a jurisdiction you may have neither a Trust Companies Act nor a Loan Companies Act. You may be operating under the General Companies Act, or operating that type of business under a General Companies Act. It was in an effort to define the type of business a provincial company was in that we bring it under the definition of a provincial institution, and which this wording was designed for.

Mr. MACDONALD (*Rosedale*): What about a financial company incorporated under the General Corporations Act of Ontario as opposed to the Loan and Trust Corporations Act?

Mr. HUMPHRYS (*Superintendent, Department of Insurance*): I do not think such a company would be covered under this definition, Mr. Macdonald, because the essential feature of a company that is doing the business described in the Loan Companies Act is lending on the security of real estate mortgages. That is not its exclusive lending or investing power but it is one of its principal functions and such a company in Ontario, for example, would be under the Loan and Trust Corporations Act of Ontario.

Mr. MACDONALD (*Rosedale*): Do you think a company would have to be capable of exercising all the powers conferred by the federal Loan Companies Act before this legislation could apply?

Mr. RYAN: That is the intention, Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Thank you, Mr. Chairman.

The CHAIRMAN: Yours was the last name I had on my list at this stage. Are there other members who have not had an opportunity on this round of questioning who wish to do so?

Mr. LAFLAMME: I have another supplementary question to Mr. Ryan. Would it not be possible not to go as far as Mr. Fulton wanted to go, but just say that

this law is legal unless it is challenged? Just delete from clause 16(a) the words:

...is authorized by the province of its incorporation...

and say:

the provincial institution voluntarily applies for deposit insurance.

Mr. FULTON: The law may be in conflict with policy here, Mr. Chairman.

The CHAIRMAN: Are there any members present who have not had an initial opportunity to ask questions? If so, I will recognize them before we start again.

Mr. McLEAN (*Charlotte*): If two large trust companies are incorporated in province 10 and they have branches in provinces 7 and 8, and provinces 7 and 8 say, you must have your deposits insured, what happens if province 10 says, no?

Mr. SHARP: Presumably, then, that company would have great difficulty in carrying on business in provinces 7 and 8.

Mr. FULTON: You could remove the difficulty very simply by striking out the requirement for provincial consent. This is why you may have gaps, not only in respect of the province in which the head office is situated but you may have gaps all across Canada. I think this is very serious.

The CHAIRMAN: Do you have any further questions, Dr. McLean?

Mr. McLEAN: No, not at this time.

The CHAIRMAN: Mr. Sharp, Dr. McLean raised a question which I raised when we were questioning some of our witnesses from the public who appeared in the course of our general discussions on the Bank Act. I was impressed by the situation in California where, apparently, no branch of a non-resident bank can operate there unless it is a member of the federal deposit insurance scheme. Intriguingly enough, foreign branches cannot belong to the federal deposit scheme so they cannot have foreign branches in California. I see now that, in effect, Brtiish Columbia, perhaps influenced by their neighbour to the south, are proposing something of this sort. Am I correct in that, Mr. Humphry? Would their requirement with respect to provincial institutions apply only to those incorporated under the British Columbia law, or any provincial institution operating in British Columbia?

Mr. HUMPHRYS: As far as I know, Mr. Chairman, their views so far expressed relate to institutions incorporated in British Columbia, but I can say that I have discussed this plan with a number of officials in various provinces and some of them are interested in it from the point of view of requiring all institutions that are transacting this type of business within their borders to be insured under the plan.

The CHAIRMAN: I do not know if you are in a position to comment on this, but do you think a province that required all of its own institutions to belong to the federal scheme would permit branches of institutions from a province which did not give this consent to operate in the initial province concerned?

Mr. HUMPHRYS: I do not think I should try to read the opinion of the province. I think the views on that point might vary.

Mr. MACDONALD (*Rosedale*): There could be no argument from the jurisdiction standpoint, but they could put that condition on other provincial institutions coming into the province.

Mr. HUMPHRYS: It is my understanding that a corporation incorporated in a province may transact business in another province only wihh the consent of the other province.

The CHAIRMAN: Are we in a position to begin another round of questionning? Mr. Fulton?

Mr. FULTON: I would like to pass on to other questions because, as Mr. Sharp said, we have had a good lively exchange—not altogether conclusive.

Would you explain to me why it was felt necessary or desirable to have the provision that says where a provincially incorporated institution becomes a member it will have a policy whereas, I gather, under the scheme with respect to federally incorporated institutions they are just insured? Why not a policy in both cases or, alternatively, straight insurance in both cases, once the adherence to the scheme is effected?

Mr. SHARP: Could I ask Mr. Humphrys to deal with that question?

Mr. HUMPHRYS: The coverage is required by this statute for federally incorporated institutions—they have no choice. With regard to provincially incorporated institutions, it was not intended in this statute to compel them to become insured and, therefore, there had to be some document issued to indicate that they were covered, to record the fact of their having applied, been approved and that the insurance is in effect. This was the basis of the concept of issuing a policy.

Mr. FULTON: I appreciate the bankground distinction but I wondered why the fact of application acceptance would not automatically bring into force the insurance. Perhaps I am reading more into the word "policy" than was intended. Maybe the fact of the acceptance of the application, a very simple document, is intended to be discribed as a policy. It that right, or would it be a long complicated policy?

Mr. HUMPHRYS: It would be a document issued by the corporation to the institution, not, I think, a long complicated document, essentially designed to record the fact that it is insured and probably including by reference the act and the by-laws.

Mr. FULTON: In the House, Mr. Sharp, you answered a question of mine and there was no time to go into any detailed discussion. It was a question in which I put forward the suggestion that there might be considered a differential rate of primium for some at least, if not all, federally incorporated institutions on whose part membership is compulsory, what I had in mind, as a background for this suggestion, is that certainly in the case of the chartered banks, which are the biggest deposit holders—I think that general statement is right—their membership is compulsory; they will be paying a very considerable amount—certainly the major amount—of the premiums coming in, and yet they are certainly amongst the safest, if not the safest, of the deposit taking institutions in Canada. I think that you would be hitting them with a heavy enough burden for their contribution to the efficacy of the scheme if you did make some differential in rate. My alternative suggestion would be that if you felt you could not exempt or give a different rate to a category of institutions like banks—which I would see the federal trust companies criticizing—you might make your premium rate dependent on the amount of deposits that are insured, and if it goes over, say $1

billion, the rate is reduced somewhat, thus equalizing the extent of the burden that will be carried. Could you elaborate on that, please or give your reasoning in that respect.

Mr. SHARP: Yes, Mr. Chairman, I answered the first of Mr. Fulton's questions in the House when he put it to me. I did not think it would be equitable to have a differential rate depending upon whether they were federally incorporated institutions or whether they were provincially incorporated institutions. I believe that there are some provincially incorporated institutions that are just as sound in their financial management as our federally incorporated institutions.

On the second point, we did give some considerable attention to the possibility of having a sort of a maximum absolute amount of premium. However, after considering it at some length we came to the conclusion that while that might be an innovation that could be considered after we had some experience, we should begin with a flat rate. I believe that this question is worth later consideration after the scheme is in effect. It may be that an institution which has a vast amount of deposits should not be required to pay on the basis of the amount of their deposits but rather than there should be some maximum amount that would be charged to any single institution. However, we decided against that, finally, at least at this stage.

Mr. FULTON: You say that this will be open for consideration as experience is accumulated. Iwould just like to make it clear that the reason I modified in my question this afternoon, the form of my question to you in the House, is that I realized that some provincially incorporated institutions are, as you said, as soundly operated as the banks and that some of them would have very substantial deposits. Therefore, it seems to me to put it on the basis of the amount of deposits under insurance would be the more equitable approach, and you said that would be considered.

Mr. THOMPSON: Could I ask a supplementary here, Mr. Fulton?

Mr. FULTON: Yes, Mr. Thompson.

Mr. THOMPSON: In our discussions earlier I think the statement was made by Mr. Rasminsky that the portion of business done by the near-banks amounted to less than one per cent of the total amount of the banking business done. Now this proportion probably does not carry in the same way into deposits. But we are dealing only with federal institutions here, so it is the near-banks that will be covered under this legislation, and they represent a very small proportion of the total deposits in the banking institutions. I presume that the basic reason that we are dealing with this bill at the present time is that we are concerned about the near-banks, that we are not concerned about the banks nearly as much as we are with the near-banks.

Mr. SHARP: May I interrupt here, Mr. Chairman, and say what I said when I appeared before, that the usefulness of deposit insurance, even for such conservatively and soundly administered institutions as the Montreal City and District Savings Bank, was demonstrated. If deposit insurance had been in effect I do not believe there would have been any run on that bank.

Mr. THOMPSON: No, I am not questioning that point, Mr. Sharp, but following up Mr. Fulton's questions, do you not think it seems grossly unfair to be assessing the banking institutions for what will be the vast proportion of the

total aggregate premiums collected for the protection of those institutions that are not in the banking category? Would you be good enough to leave it, as you said, for further consideration. It seems to me to be inequitable.

Mr. SHARP: Mr. Chairman, one of the purposes of this legislation is to promote competition and if the introduction of deposit insurance has the result in due course of strengthening the confidence of the public in these institutions that are accepting deposits, other than banks, I would not consider that a great calamity. I can understand the banks not being very enthusiastic about it but I do believe that it is highly desirable that there should be a more competitive system, and I would hope this would come about partly as a result of deposit insurance, not because of the existence of the insurance so much as the fact that there would be much more adequate inspection and supervision of these institutions, and that they would grow. I would not consider it undesirable if these institutions should grow relatively to the banks.

Mr. THOMPSON: I am not questioning your statement just now—

Mr. MORE (*Regina City*): Would you feel that you would like them to become banks, in time?

Mr. THOMPSON: —nor am I questioning the ability of the banks to pay the amount of the premium that they will be required to pay, but we would like to think that our legislation is fair and just. Do you not think it would be possible to have a sliding scale of premium without too much difficulty, which would be more equitable to the larger institutions which are the banks?

Mr. SHARP: I do not rule this out as a possible development of the system. In the United States, deposit insurance had a very desirable stabilizing effect on the whole system of deposit-taking institutions which, of course, are subject to different kinds of laws than ours are, but I would believe it would be very difficult, if not impossible, to decide now what would be a more equitable sharing of this burden by imposing some sort of a maximum limitation. In the meantime, I believe that the general interest of the public is served by bringing the deposit insurance into effect on a flat rate premium even if arguments can be made that the banks are, to some extent, subsidizing their competition.

The CHAIRMAN: I think that we should give the floor to Mr. Fulton now.

Mr. FULTON: Mr. Sharp, I have not heard you say that you would not be able to institute an adequate and effective deposit insurance scheme even if you did have a sliding scale at the outset.

Mr. SHARP: That is right.

Mr. FULTON: Therefore, I am questioning you as to why you do not have a sliding scale at the outset?

Mr. SHARP: This is quite an arguable proposition and we gave quite a bit of consideration to it before we introduced this legislation. We believed that since we have not had any experience in Canada it would be better to begin with a flat rate premium. It would be very difficult to justify anything else until there has been some experience.

Mr. FULTON: Does that not mean that it will be established and be made to run to your satisfaction by imposing upon the banks and some of the large trust

companies, all of whom are sound, the heaviest burden with respect to deposit insurance?

Mr. SHARP: I agree.

Mr. FULTON: That does not seem to me to be really equitable but I do not know whether or not we are going to be able to change your mind.

Mr. MORE (*Regina City*): Mr. Sharp, you say this is a matter which is arguable and which could be considered after experience. I am wondering about the experience. I do not quite understand. These companies in respect of which we are asking you about a difference in rates are, in the main, old, well established firms. You have had inspections of them; you have knowledge of their operations; you have available knowledge now of what their operations over the years has involved that would bring them into using your deposit insurance, so what further experience do you need? All it means is that things that have happened during the previous 10, 15 or 20 years of their operation are now going to be more evident in the operation of deposit insurance. But, surely your knowledge of their business indicates a basis now where you could consider a difference in premiums.

Mr. SHARP: May I add one other consideration? I think it is desirable that we should collect premiums at the beginning at a somewhat higher rate than we will eventually have to collect them. It is provided in the bill that when the Deposit Insurance Corporation has a sufficient reserve that premiums may be adjusted, and that would seem to me to be a more appropriate time to consider whether a differential rate should be in effect. Otherwise, if we were now to place a maximum limitation upon the amount of total premium paid by an institution it would take longer before we reached that position when we could reduce the over-all rate upon all institutions.

Mr. FULTON: I would prefer to see you do it on a sliding scale, not just a maximum contribution, because all deposits are going to be insured. I think to set the ceiling at $200 million of deposits, then a lower rate on the next $200 million and a lower rate on the next, and so on, would be more equitable than just a flat maximum. You know what that would produce.

Mr. SHARP: Mr. Humphrys has asked if he might make a comment.

Mr. HUMPHRYS: There are two comments I would like to make. In the scheme in the United States, they have charged a flat rate on all institutions from the time it was started. In that plan they charged their premium rate on the entire deposits of the institutions even though the insurance only extends up to a maximum of, I think it is now, $15,000. This plan proposes to charge the rate only on the deposits that are up to the insured limit. To that extent, therefore, there will be a more equitable treatment for banks here than in the United States' plan because the chances of large deposits—over $20,000—are much greater in the banks than in the other institutions.

Mr. FULTON: Did I understand you to say, Mr. Humphrys, that supposing there is a deposit of $100,000 in a bank, the premium will only be paid on the first $20,000 of that individual's deposit?

Mr. HUMPHRYS: Yes, because the premium is on the deposit and the deposit is to be defined.

Mr. FULTON: It is just a matter of defining "deposits". It certainly does not appear from the act—

Mr. HUMPHRYS: It is on the total deposits that are insured.

Mr. THOMPSON: Up to $20,000.

Mr. HUMPHRYS: Whatever the definition says.

The CHAIRMAN: Do you take into account the fluctuating deposits in the course of a fiscal year?

Mr. HUMPHRYS: The plan is to require the insured institutions to pay a premium on the deposit balances calculated once a year at the end of April, which would be paid in two instalments.

Mr. FULTON: If they have $600 million on deposit at that time, they will not necessarily be paying one-thirtieth of one per cent of $600 million?

Mr. HUMPHRYS: No.

Mr. FULTON: But only on as many accounts within that $600 million as—

Mr. HUMPHRYS: They will eliminate the excess of any account that is over $20,000.

Mr. FULTON: I did not see it in the bill. I believe it is the amended definition.

Mr. HUMPHRYS: In section 19, Mr. Thompson, it states that the insured institution will pay an annual premium equal to the greater of $500 or one-thirtieth of 1 per cent of the total amount of such deposits as are deposited with the member institution on the 30th day of April and insured by the corporation; so that it would only be the insured deposit.

Therefore, in practice, the institution would add up its deposits, eliminating any excess over $20,000 in respect of each deposit, and then there would be a further adjustment, we believe, in order to allow for the fact that in some institutions one person might have a number of deposits. We would therefore have to make a further adjustment—probably on an approximate basis—to arrive as close as we can at a premium that is based on the insured deposits.

Mr. MORE: Do I understand, Mr. Humphrys, that a depositor could operate his account from May 1 to April 29 and be insured, and on April 29 take out his money and then there would be no premium paid on the insurance protection during that period. He could put it in again on May 1?

Mr. HUMPHRYS: That is right; but the premium is calculated on the balances once a year.

An hon. MEMBER: It has got to be somewhere.

Mr. HUMPHRYS: It is not likely, we think, that an institution would pay back all its deposits at the end of April in order to reduce its premium.

Mr. SHARP: Well, Mr. Humphrys, perhaps you should have an unheralded entrance.

Mr. MORE: Then I could ask for a compensating balance, or something, to make up the premium; and the depositor might want his deposit back if he could save this charge.

Mr. HUMPHRYS: I think, also, that the problem of trying to determine the probability of loss in an institution would be almost impossible. To grade the premium by the chance of loss would mean that some institutions would be paying zero, and the ones that need insurance would be paying the whole premium, which would defeat the whole plan.

Mr. FULTON: I wonder if I could just finish up with three short questions?

I have not been able to appreciate the significance of subclause (5) of clause 19. Could you tell me what is the reason for its inclusion, and how would it work? I can understand that if you find you have an adequate balance in your own funds to insure everything, you can reduce premiums, but what is the relationship of one-sixth of 1 per cent of the total amount of such deposits? What are the mathematics of this?

Mr. HUMPHRYS: The premium is one-thirtieth of 1 per cent per annum.

Mr. FULTON: Yes.

Mr. HUMPHRYS: One-sixth of 1 per cent represents five years' premiums. The idea is that after an institution has paid for five years, then, in effect, it would not have to pay any more after that if its deposits remained level. As soon as it had paid five years' premiums, if its deposit balances were not thereafter increasing, it would pay no more. If its deposits were increasing, however, it would pay then one-sixth of 1 per cent on the increase in the deposit from year to year.

Mr. FULTON: One-sixth of 1 per cent, which is a great deal more than one-thirtieth of 1 per cent.

Mr. HUMPHRYS: But only on the increase; so that, in effect, once an institution has a level deposit balance it would pay for five years, and then it would pay no more.

Mr. FULTON: If its deposits increased it would pay one-sixth of 1 per cent—

Mr. HUMPHRYS: —for that one year.

Mr. FULTON: —for that year; but—

Mr. HUMPHRYS: Never more than one-thirtieth of 1 per cent of its total insured deposits.

Mr. FULTON: I with we could get this record quicker, because I would like to read that. I still do not understand it. You assure me that it has the effect of relieving—

Mr. HUMPHRYS: Yes, indeed.

Mr. FULTON: —and not of adding a heavier burden?

Mr. HUMPHRYS: In a major, well-established institution, where the deposits perhaps are not increasing rapidly, this would mean that after five years its premiums would drop very sharply; whereas, a new institution that is growing up fairly rapidly would have to keep paying. It is a plan whereby the burden of the premium could be relieved on the major institutions that are well-established, but new institutions coming into the field, or institutions where their insured deposits are increasing rapidly, would have to continue to pay. It effects in fact, a more equitable distribution—

Mr. FULTON: Would it not be the case, and is it not the expectation and the hope, that as the economy expands, although some institutions may be growing relatively more rapidly than others—especially new institutions—all the institutions would have a steady expansion in the amount of their deposits, unless they become dead not only from the neck up but the neck down?

Mr. HUMPHRYS: I think that is the hope of all, Mr. Fulton, but this plan would sharply reduce the premium in any institution that is not growing at a rate that exceeds, I think, 25 per cent a year.

Mr. THOMPSON: You mean you are easing off on the level of deposits that are constant—

Mr. HUMPHRYS: Yes.

Mr. THOMPSON: —and increasing on the five year term basis on the new expansion.

Mr. FULTON: I am afraid my next question might again involve a lengthy exchange, so may I defer?

The CHAIRMAN: I recognize Mr. Thompson unless he was merely indicating—

Mr. THOMPSON: Mr. Chairman, I was concerned about this premium thing, but I have just a few questions on participation.

The CHAIRMAN: I just want to indicate to the Committee that my list following yourself, Mr. Thompson, we have Dr. McLean, Mr. Latulippe, Mr. Lind, and Mr. More.

Mr. THOMPSON: Immediately this legislation comes into effect it seems to me that it is going to place the presently chartered institutions, other than the banks, in a very advantageous position competitively as far as confidence with depositors are concerned. Therefore, it seems to me it is going to be the natural outcome that provincially-chartered institutions are going to want to come under the deposit insurance coverage, particularly in those provinces where there might not be a provincial law. So there will be pressure on individual institutions, and there will also be pressure on provincial governments to bring their provincially-chartered institutions under the legislation.

Is there adequate provision within the legislation to allow for provinces who want to bring their institutions in through an act of legislation in their own legislatures as part of this federal legislation? Is there adequate legislation? Is there encouragement for the provinces to do that?

Mr. SHARP: There is great encouragement, I believe, in this legislation for the provinces to give permission to their institutions to come in. The question of whether they should compel them, is another matter that would require legislation; but it would not require legislation for them to give permission to their institutions.

Mr. THOMPSON: I can well imagine that some of the provinces, rather than to set up a similar type of deposit insurance themselves, will just choose to pass legislation that will permit them to become part of this; am I correct that this would be an acceptable thing if provinces chose to do this.

Mr. SHARP: Yes; there are pressures, of course, upon the institutions themselves to come in, because apart altogether from the greater freedom that it would probably give them to operate outside the provinces in which they are incorporated, I would hope that a notice on their front door that they are insured by the Canada Deposit Insurance Corporation will help them to survive in competition with those who are in.

Mr. THOMPSON: I am concerned about making provision for those who are not in to come in. Apart from the provincial governments requiring their institutions to do this—which would require an act of legislation on their part—what means would an individual, specific institution have of becoming part of the corporation? Would they be required to take out a federal charter, or would there be a basis of affiliation without that, as individual institutions?

Mr. SHARP: Perhaps I will let Mr. Humphrys answer that, since it is a little technical.

Mr. HUMPHRYS: A provincial institution could apply if it has the authorization of its province. If it is in a financial position that is satisfactory to the corporation, it would be insured as a provincial institution.

Mr. THOMPSON: Providing it had the permission of the—

Mr. HUMPHRYS: —province.

Mr. THOMPSON: I can also foresee that there will be many provincial institutions which are sound institutions that would want to probably change their charter to a federal charter.

Mr. HUMPHRYS: I do not think this legislation would bear on that particularly, Mr. Thompson.

Mr. THOMPSON: It would not be necessary.

Mr. HUMPHRYS: No.

Mr. THOMPSON: If they could get the permission they could do it without taking out a federal charter.

Mr. HUMPHRYS: Yes.

Mr. THOMPSON: If they get permission from the province.

I think that covers the one point I wanted to cover, Mr. Chairman, except I am not satisfied with the Minister's answers in regard to this blanket set fee. I am not going to argue it further, but I think there ought to be some way of dealing with it more equitably than this does; although I appreciate the two points that have come up since Mr. Fulton first raised it, because I think they are relevant to it.

The CHAIRMAN: Dr. McLean?

Mr. MCLEAN (*Charlotte*): One of my questions is answered, because I thought that the thirtieth of 1 per cent applied to all deposits. There is one exception there, however, that is a deposit that is not payable in Canada, or in Canadian currency. There are deposits in the Canadian banks and in American banks.

Mr. SHARP: Mr. Chairman, those are not insured.

Mr. McLean (*Charlotte*): I see that they are not insured; but will they not pay any premiums?

Mr. Sharp: If they are not insured they do not pay premiums.

The Chairman: Is this the same practice under the American scheme?

Mr. Thompson: The incentive, I think, would be to convert it, Mr. McLean.

The Chairman: If you do not have the information readily available, it does not matter.

Do you have any further questions, Dr. McLean?

Mr. McLean (*Charlotte*): No, that is all I have.

(*Translation*)

The Chairman: Mr. Latulippe? Do you have any questions to ask?

Mr. Latulippe: Yes, I have a few questions to ask. I would first like to ask the Minister why this insurance is compulsory?

(*English*)

Mr. Sharp: It is compulsory for federal institutions.

(*Translation*)

Mr. Latulippe: Is it because, since this insurance is compulsory, you expect a certain depression in the future? Do you consider the institutions are not strong enough? There are some institutions that are stronger than the Government, so why make this insurance compulsory? If this insurance is good, surely the people will take it; if not good, those who don't need it won't take it. I would set up this insurance, but I would not make it compulsory. I think it should be left up to the individual.

(*English*)

Mr. Sharp: Mr. Chairman, with this point I disagree. I believe it is very much in the interests of Canada that the smaller depositor—and we are insuring deposits up to only $20,000—should be insured.

It is very difficult for individuals to be able to judge the financial soundness of these institutions, and as universal a system of deposit insurance as possible is going to add not only to the feeling of confidence of the depositors, but also contribute, I hope, to the general financial stability of the country.

(*Translation*)

Mr. Latulippe: In this case, would it not be logical to insure the Government's debentures? Some of these are only listed at 80 and 58 cents. Some have come down from 80 to 58 cents.

(*English*)

Mr. Sharp: Mr. Chairman, I can think of nothing safer than the securities of the federal government. They will all be paid when they fall due. We have never had any history in this country, fortunately, of our federal government's ever failing to meet its obligations. This is probably even safer than a deposit in a chartered bank.

(*Translation*)

Mr. LATULIPPE: Some people of my riding are writing letters and asking me why their debentures are only listed at 80 or 58 cents. They cannot understand it at all, they are beginning to doubt the Government's solvency. This is what I had in mind when I asked my question.

The CHAIRMAN: Could you clarify your question? Is it the Government which is not paying the entire market value?

Mr. LATULIPPE: No, but being on the market instead of being worth 80 cents or 58, people want to sell them at a better price because interest rates are going up and if we increase interest rate these debentures are not being sold since they have come down instead of going back up. Of course, we understand that the Government will pay full amount when they are due, but these citizens will have lost a certain amount in interest.

(*English*)

Mr. SHARP: Mr. Chairman, every time the rate of interest goes up the value of fixed interest securities goes down. Similarly, when the rate of interest goes down, as it has now been going down for a couple of months the value of these securities has been going up.

(*Translation*)

Mr. LATULIPPE: Now, I would like to point out to the Minister too that in our economy we have several other types of companies which are doing business and handle more capital than the ones you want to protect. There is no protection for them under any law, or regulation of any kind, and they are going bankrupt. They are losing millions, owe millions, but there is no insurance for them. But for capital which is partially entered in the books, there will be insurance to protect the books; but to protect the true wealth of the country, however, there is nothing, no one is doing anything in this regard. I would ask the Minister if he could not find some solution to this problem.

(*English*)

Mr. SHARP: Well, Mr. Chairman, if I could find a solution to the problem of protecting a businessman against any possibility of failure, I would probably have solved one of the great human problems. Every time we buy anything, or invest in anything, we incur certain risks.

This legislation is intended to protect those people who are making deposits in our banking and near-banking institutions, and I believe that this is a proper extension of the role of government.

I doubt very much whether it would be possible for the federal government to ensure the return of everyone's investment in any sort of an institution.

(*Translation*)

Mr. LATULIPPE: Perhaps in the future you might find a solution.

The CHAIRMAN: Mr. Latulippe, maybe you could help the Minister in this regard.

(*English*)

Mr. Lind?

Mr. LIND: Mr. Chairman and Mr. Sharp, I am going to look at this from a rather different angle.

Will deposit insurance not encourage a more complete disclosure? When we have full disclosure will this not create a greater confidence in our deposit-taking institutions?

Mr. SHARP: That is one of the prime objectives, Mr. Chairman.

I believe that we do need more adequate supervision of at least some of our deposit-taking institutions, and I can think of no more effective way of doing this at the present time than by the legislation that is before us.

Mr. LIND: Then our deposit insurance will give the man in the street the more complete protection in our deposit-taking institutions that we would like to create? Is that not the aim?

Mr. SHARP: That is right.

Mr. LIND: Thank you.

The CHAIRMAN: Mr. More?

Mr. MORE (*Regina City*): To follow up on Mr. Lind's question, do I understand, Mr. Sharp, that this bill will bring about more public disclosure than there is now in the investigation and reports that are made to the Inspector General and to Mr. Humphrys in his position, in regard to federally-incorporated companies?

Mr. SHARP: I have better ask Mr. Humphrys and Mr. Scott to speak on that point, because my offhand view would be that as far as federal institutions are concerned the procedures we now have are fairly adequate. I know that that is so in the case of our chartered banks. I am not quite certain whether we do not obtain certain extra powers of supervision over the non-banks.

Mr. HUMPHRYS: We do get complete information on federal institutions, and we publish an annual report giving the details of their financial statements. At the moment it is not planned to greatly expand the flow of information on those institutions. But the corporation would be making an annual report on its own affairs, and in that report some additional information might be disclosed.

Mr. MORE (*Regina City*): There is nothing in this bill requiring it?

Mr. HUMPHRYS: No; this bill requires the corporation to make an annual report.

In the case of provincial institutions it may be that there are some now who make no public disclosure of their financial statements and financial position. This procedure would help to achieve some increase in the amount of that disclosure.

Mr. MORE (*Regina City*): Only if they become members of this group.

Mr. HUMPHRYS: Yes.

Mr. MORE (*Regina City*): I thought, Mr. Sharp, that I ought to raise that, because your answer to Mr. Lind indicated something that I had not seen at all. I think that that answers the question.

Mr. SHARP: May I correct something? I did not think Mr. Lind was talking about disclosure; he was talking about protection.

Mr. MORE *(Regina City)*: He used the word "disclosure."

Mr. SHARP: Well, I answered the question, or at least one of the questions, as relating to the protection of depositors. It does improve the disclosure for those companies that are provincially incorporated and over which we now have no authority; and it certainly does improve the protection for the ordinary depositor.

M. MORE *(Regina City)*: I have no argument about that. Mr. Lind's was a combined question and you gave—and I say this without any criticism—what I thought was an offhand answer. I wanted clarification.

I wonder if we could get any indication of the size deposit you expect to get? You have a subscribed capital of $10 million; you have one-thirtieth of 1 p. 100 of the insured deposits as the premium; and you apparently have in mind reserves built up on a five-year basis before these factors are reduced and limited.

Before we had your bill and when there was just general discussion in the Committee we asked—and the question is hypothetical, I agree—"Suppose the deposit insurance bill that the Minister intends to present is on a basis similar to that of the United States". I understand the premium there is one-thirty-fifth of 1 p. 100. However, I did not know until today that it is on all deposits—insured, or otherwise. I think answers were given that it would cost the chartered banks between $4 million and $5 million annually in premiums, and that perhaps the cost to loan companies involved would be something of the order of $2 million.

I am wondering, in view of the fact that it is one thirtieth of 1 p. 100 of insured deposits only, if these figures are out of line, or if they are approximately correct even on this basis?

Mr. SHARP: I am advised that the estimate made by the banks is reasonably close. We are not in the position, as yet, to know whether the premiums paid by the other institutions would be accurate.

Mr. MORE *(Regina City)*: I think perhaps that the answers given were in regard to federally incorporated companies that had a compulsory obligation. Would that be approximately right for federally incorporated loan and trust companies which are compelled to take this insurance?

Mr. SHARP: Mr. Humphrys is just looking at the figures.

Mr. HUMPHRYS: Depending on the precise definition of "deposits", it would appear that federally-incorporated trust and loan companies would pay something less than $1 million.

Mr. MORE *(Regina City)*: Something less than $1 million; and the banks between $4 million and $5 million.

I want to put another question to you. About the compulsory feature of this and the extension of it to the chartered banks and the federally-incorporated companies. I have no doubt in my own mind that this is a group the experience of which in the main, or perhaps wholly, would indicate that they do not require this deposit insurance. They are sound; their operations are conducted strictly in accordance with the law; and the position of their depositors is without

question. Would you agree that this is the situation with the federally-incorporated companies that are put under this umbrella compulsorily?

Mr. SHARP: Well, Mr. Chairman, the question to bear in mind is that we are hoping that there will be some new banks; and there may be some new federal institutions—at least, we do not hope that, but it could be that there will be. Certainly in the case of the chartered banks, we are hoping that new banks will arise. This will help them in attracting deposits.

Mr. MORE (*Regina City*): The new banks?

Mr. SHARP: Yes; if they are members of this federal insurance plan. I think it is a good thing to encourage new banks to get started. Without reflecting in any way upon the existing banks, I have made it quite clear in introducing the banking legislation that I believe that there ought to be more competition in the banking system.

Mr. MORE (*Regina City*): Well, I do not disagree with your argument, Mr. Sharp, but I want to put the proposition to you that it seems to me—and I have been in business and had competitors—that what you are asking the present institutions to do is similar to asking a business that has provided its own capital and spent its own funds on advertising and other means to establish itself as a viable and sound business in the community to support a newcomer who enters the field, and whose problems in establishing himself are too great for him to face on his own, so that he can establish himself as a competitor. This is what seems to me to be the corollary here.

This is why I find it very hard to accept the flat rate premium idea. You are putting under the umbrella, for the purpose of establishing a sound basis throughout the whole system, established businesses and developing and new entrants, and you demand that those who, from their own resources, have established their position, must now bear the main brunt of providing the basis for competition to come in and operate. I find it very difficult, Mr. Sharp, to accept this in principle.

Mr. SHARP: Well, Mr. Chairman, there is another consideration involved here and that is that it is very much in the interests of our sound, well-established financial institutions that the general standards in this business be raised.

I am quite sure that none of our chartered banks is anything but sorry if there are unnecessary failures in institutions that are carrying on a similar kind of business. It is very much in the interests of not only the general public but of the banks themselves that our financial system should be stable; and that Canada should have a reputation for financial institutions, whether federally or provincially incorporated, that are run on sound lines.

I believe that the introduction of deposit insurance will underpin the whole system to the benefit of the well-established institutions.

Mr. MORE (*Regina City*): You are talking about the benefit of complete confidence by the public with this I do not argue. However, I do argue about the fact that you are asking the established companies, about whom there is no question, to pay too high a price to do this for their new competitors. This is the point that I think we are arguing, and I believe there is some general agreement, Mr. Sharp, that this is so.

Mr. SHARP: I do not disagree that this question should be looked at again. As I said in reply to Mr. Fulton, I think there is some validity to this argument. I believe, however, that we should get this institution established, have some experience, and then look at the question of equities. I think it is significant that in the United States, even after all these years, they are still proceeding on the basis of a flat premium.

Mr. MORE (*Regina City*): Of course they have a completely different system, and I would suggest that there is a much greater risk involved in some of the operations that function in their scheme.

I do not disagree too much with what you say, but I still find it very hard to accept that as a matter of expediency—that is about the only word I can use—you say that we go now with the flat rate.

I suggest, as I did earlier, that there is already in existence all the experience you need in regard to the present companies who are going to be compelled to enter this scheme. You have complete data for years of operation of these companies, which will cover any information you may want about the experience of these companies.

What you are asking, in fact, is that they pay this price for the experience you have to gain of provincial institutions and other parties who come into the scheme and of whose operations you do not have full knowledge now.

This seems to me to be the point, but I will leave it at that because I see that the Minister's position is, I think, adamant. I appreciate that he does agree that it is a matter of consideration, but not now.

The CHAIRMAN: I understand Mr. Monteith has one question. After that will recess until later this evening.

Mr. MONTEITH: Mr. Sharp, I do not know whether you will have this at your finger tips but possibly Mr. Humphrys or Mr. Scott might have some idea. Assuming, as we all hope, that there are no calls upon these funds, because of some institution defaulting one way or another, what sort of reserve do you expect to have by the end of about 5 years?

Mr. HUMPHRYS: We have not made nay projection of that, Mr. Monteith.

Mr. MONTEITH: How much have you estimated that your operating expenses will be, or have you got into that at all yet?

Mr. HUMPHRYS: We really have not gone into that in detail. We hope that the operating expenses will be extremely low and that we will not have to fall back on the insurance.

If claims did arise and the corporation had to take over the duties of liquidation, or receivership, there could be some substantial expense involved.

In the normal course the operating expense should not be large.

Mr. FULTON: When you refer to "operating expense" are you using it in the terms just of running this fund, of doing the accounting work with respect to fund, or are you contemplating also the increase in inspection staff that will be necessary because of the expected, and hoped for, large number of institutions that will come under it? Using "operating expenses" in that sense would your answer still be the same?

Mr. HUMPHRYS: If it should develop that the corporation had to do a lot of inspection services, then the expense could be substantial; but the federally-incorporated institutions will continue to be inspected under existing legislation in which the costs are charged back to the institutions.

For provincially-incorporated institutions, in some provinces they have, or are instituting, extensive inspection and supervisory services, and we think it would be possible for the corporation to make use of those services and the reports that come from that supervisory service. Therefore, it may not be necessary for the corporation itself to bear very extensive expenses for inspection.

However, it is very difficult to estimate at this point how much it would have to absorb in that respect.

Mr. FULTON: I have one further question, if Mr. Monteith is agreeable.

To the extent that additional inspection personnel are found to be necessary, will these personnel be on the staff of the new deposit insurance corporation, or will you simply expand the services and personnel of the Inspector General of Banks and your own inspection personnel? Will you have a third body of inspectors, in other words, or will those other two do the work for the corporation?

Mr. HUMPHRYS: The way the bill is set up it is open to the corporation to designate a person to do an inspection for it. The bill provides that for federal institutions the existing pattern will be maintained; so that the corporation could ask the Superintendent of Insurance to inspect the institutions on its behalf in a particular province, and to use the staff of the department; but it would be expected that the expense thereby incurred would be charged back to the corporation.

Mr. MORE (*Regina City*): Who might then pass it on to the institution that has been inspected?

Mr. HUMPHRYS: No; there is no provision for a direct charge by the corporation for inspection of a member institution. The expenses would be charged against the income of the corporation; and most of its income will, of course, arise from interest earned on the fund or the capital.

Mr. MORE (*Regina City*): Mr. Chairman, does this not then create greater discrimination than was obvious from the flat rate? The federally-incorporated, compelled institutions have to pay the cost of these inspections, plus the flat rate. Do you now suggest that provincially-incorporated institutions coming under this scheme will have to pay only the flat fee, and that the corporation will then pay the costs of the inspection? If so, this is further discrimination, Mr. Sharp.

Mr. FULTON: Have we got the facts right?

Mr. HUMPHRYS: Yes, the facts are right.

Mr. SHARP: This is a very minor increase in the burden upon these institutions and, as I say, they, too, benefit indirectly from the improved financial climate in which they are operating. They would prefer to have these institutions inspected and subject to adequate supervision. I am sure that this is their view. I am also sure that they would prefer to have a different system of premiums.

However, I think, everything considered, that it is not an undue burden on these institutions, and that it is preferable to proceed in this way than to attempt now to work out a much more sophisticated kind of premium system, pending some experience with the plan.

The CHAIRMAN: Gentlemen, I suggest that we recess until 8.00 p.m. and continue our considerations then.

EVENING SITTING

The CHAIRMAN: We are now in a position to resume our meeting. The Clerk feels that as a matter of procedure we should have a separate motion to print the proceedings of the deposit insurance bill. That being the case, I would invite a motion that we print the same number of copies of our proceedings on this deposit insurance bill as we have for the banking bills.

Mr. MACDONALD (*Rosedale*): I so move.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I second the motion.

Motion agreed to.

The CHAIRMAN: I have had the Clerk distribute to members copies of the amendments that the government is going to propose at the appropriate time in the hope that members would have had a chance to study them before we get to the actual stage of discussion. I think that when we recessed for supper we were in a general round of questions and discussions on the act and I would ask members whether they have any further questions or comments to exchange with the Minister or his officials at this time?

Mr. FULTON: I have a question I would like to ask Mr. Ryan, but he is not here at the moment and I will defer it until he comes back. I will ask Mr. Sharp a question, which I indicated earlier may involve some exchange of views, but I will try to keep it as short as possible.

I have on several occasions indicated my strong feeling—and I am speaking personally here or as an individual member of Parliament—that it is desirable to extend the umbrella of federal control, regulation and inspection as widely as possible over institutions engaged in the field of financial business in Canada, including what are generally described as finance and acceptance companies. May I lay this premise or basis for my question. In the Bank Act we have the means of inspection and control over the banks and, generally speaking, we have a satisfactory system in so far as their reliability is concerned. Under the Trust Companies Act and the Loan Companies act, we have by and large from this point of view the same system with respect to companies in that field.

Mr. SHARP: Federally.

Mr. FULTON: Federally incorporated. Under the deposit insurance legislation now being considered we have a device which—although I have reservations—if it works the way you think it will work, will have as one of its results, and I think a very important result, further extension of this umbrella over provincially incorporated companies carrying on business as defined in the federal loans

and trust companies acts. However in my view there is still this one important gap, and that is the finance and acceptance companies.

It is a fact that the failures which have given rise to very grave concern and which, I think, have had widespread repercussions in the field of financial institutions of Canada, have been on the part of two companies, Atlantic Acceptance and Prudential Finance, which are the type of company that I would refer to when I talk about finance and acceptance companies. As I see it, there is nothing in your proposed legislation which covers them or brings them in any way within the ambit of this federal umbrella. I have developed in the questioning of some of the witnesses before this Committee, including Mr. Rasminsky, the idea of—and I am not claiming any great originality in it, but I have been very much concerned with the prospect—making available to this kind of company, whether federally or provincially incorporated, what is called the device to the lender of last resort, and I am told—and as far as the evidence given here is concerned, it seems to substantiate it—is that they would be very happy to have such a device available to them and that they would—at least, this is my impression—be prepared to accept, as a condition of the availability of that device or resort, a very considerable degree, indeed whatever degree might be imposed of federal inspection and regulation.

In this bill before us, An Act to establish the Canada Deposit Insurance Corporation, it is provided that besides being an insurer of deposit, the corporation will be a lender of last resort to those companies whose subscription or adherence to the deposit insurance scheme is contemplated in this bill.

I am sorry about the long preface, but I wanted to ask you on the basis of that position, your reaction to the possibility of extending this legislation so as to make applicable the lender of last resort device on a voluntary basis—because here I think the constitutional position is such that it would have to be voluntary, certainly with respect to provincially incorporated companies—to finance and acceptance companies, thus completing the whole circle of federal coverage?

The CHAIRMAN: I think your question is of such important impact that the Minister will consult with his officials. I say this because when the tapes are being transcribed, the stenographers will not think we have adjourned for a while.

Mr. SHARP: Mr. Chairman, like Mr. Fulton, I have been concerned about the adverse effect upon our financial reputation of the failure of Atlantic Acceptance and Prudential Finance. I know that the provincial governments are similarly concerned. I already have told the provincial ministers who met with me when we were discussing with them the disclosure of the costs of consumer credit, and also the Ministers of Finance whom I met just before Christmas in connection with the pre-budget survey of economic prospects, that I intended to call a meeting of the provincial ministers to discuss with me the question of finance companies in particular, to which the response was very good. They were obviously very interested.

There are two problems involved, it seems to me. First of all, there is not now any framework of legislation to govern the operations of finance companies either at the federal or at the provincial level. One of the first steps that I would take, in calling such a conference, would be to be sure that we had, to place

before the provinces, a draft of a federal bill, which might serve as some sort of a model for the regulation of these companies.

Mr. FULTON: Federally incorporated?

Mr. SHARP: Federally incorporated finance companies. Thereafter the question of having a rediscount or a lender of last resort privilege could be considered, and certainly I would like to see this considered as a possible method of raising the standards of financial management of those companies. However, the first step undoubtedly is to establish rules within which they are to operate and these rules, I am told, do not exist at the present time. I think it is fair to say that none of the 11 governments has legislated adequately in this field. Those are my preliminary comments, Mr. Chairman.

Mr. FULTON: Do I understand the effect of what you are saying to be that until we have devised a federal finance and acceptance companies act—I am just giving it this title—under which the requirements for incorporation and the regulation of the activities of such companies under federal charter would be prescribed, that we would not even be in a position to suggest how they should be regulated and inspected. Is this what you are saying?

Mr. SHARP: Not quite that. In none of the 11 jurisdictions do we think that there is adequate legislation in relation to these companies. And you must have some body of accepted rules before you can consider the extension to these companies of the privilege of borrowing money in order to maintain or protect their liquidity. That is why I said that the first step would be to discuss the legislative regulation of these companies. For our part, we will place before that conference draft legislation relating to federal companies which, after discussion, we would place before Parliament; and we would hope that that model might be suitable for the provinces in passing legislation governing the activities of their finance and acceptance companies.

The second stage will come when we may consider the suggestion that Mr. Fulton has made; to provide a form of liquidity for these institutions—not institutions which have made bad investments but those who have borrowed short and lent long, or whatever the reason may be—so that they could avoid going into bankruptcy at the expense of the whole system. Mr. Chairman, I think that is as far as I feel I can go at the moment. So little has been done in this field to date that it would be premature to suggest that the first step would be the establishment of an institution, a bank of last resort, or a facility of last resort.

Mr. FULTON: You are really saying that if you did that at the present time you would hardly know what criteria should guide those who might then inspect and see whether they were qualified to come under that umbrella. That is what you are saying, is it not?

Mr. SHARP: That is what I am saying, yes.

Mr. FULTON: Mr. Sharp, can you give us an indication of a time table. Are you able to do that at the moment? I think this is quite urgent.

Mr. SHARP: The only point that I could make at this time is that I have been urged by the provinces to call a conference of this kind earlier than I had originally intended. I would call it tomorrow if there were not so many other things to do and if my officials were not engaged in getting this institution

established and otherwise dealing with urgent problems. It is my intention to call an early conference.

Mr. FULTON: You cannot give a guarantee, but is it your impression that proceeding along these lines provincial governments generally would be prepared to accept, once the groundwork is laid, an approach such as you and I have been discussing?

Mr. SHARP: I have reason to think that the provinces would welcome such an initiative on our part. One of them has mentioned this specific point about having an institution of last resort. I do not know if Mr. Humphrys knows anything more than that about the prospects.

The CHAIRMAN: I am wondering, Mr. Sharp—and perhaps I have been somewhat lax as Chairman—whether we are straying somewhat afield from the bill before us. Our position is somewhat different from our consideration of banking legislation, since we are looking at the whole system as such. I think, quite rightly, we took a very wide latitude in what we discussed. However, we now are dealing with a specific bill. I do not mean to imply by my comment that Mr. Fulton is not raising something which should be of concern to this Committee and to the country at large.

Mr. FULTON: Mr. Chairman, I could relate it to the subject under discussion by saying that I have been contemplating the possibility of drafting an amendment to this bill which would extend the lender of last resort system. I think it may be well beyond my capabilities, but it has been in my mind and it was because we are dealing here with something which is a lender of last resort that I was asking these questions.

The CHAIRMAN: I can see the relevance, but I thought I should make this comment.

Mr. MORE (*Regina City*): Mr. Chairman, we are not dealing with banking legislation; we are dealing with an insurance bill to bring more confidence to our financial markets.

Mr. MACKASEY: Perhaps we could settle this by discussion when Mr. Fulton's amendment is before us.

The CHAIRMAN: I am not suggesting that we should not proceed with this discussion; I am just bringing this thought to the attention of the Committee.

Mr. FULTON: I was about concluded. In view of what Mr. Sharp has said, he having all the resources of the federal government at his disposal and I have not, while I appreciate this kind of discussion, I do not think I am apt to proceed with my self-imposed task of drafting an amendment because it seems to me that Mr. Sharp has the matter under urgent and active consideration and I would be prepared to wait.

Mr. SHARP: May I just conclude this discussion, Mr. Chairman, by saying that I do not think it would be desirable to give the Canada Deposit Insurance Corporation authority to make loans to finance companies. I believe that the problem is a very different one and it might do damage to this institution to give it those additional responsibilities.

Mr. FULTON: If I have not exhausted my time, may I ask Mr. Ryan what I hope will be just one question. Mr. Ryan, if the Minister will permit me to put

this question to you—and I make that qualification because of the tenure of our earlier discussion—have you been asked for, given or would be prepared to give an opinion to the Committee as to whether Bill No. C-261 would still be within the jurisdictional competence of the federal Parliament to enact if clause 16 were to be amended by the deletion of subclause (a)? I am not asking for policy.

Mr. RYAN: Do I have your permission?

Mr. SHARP: Certainly.

Mr. RYAN: Mr. Chairman, I think it would be, yes.

Mr. SHARP: I will take my chances like Mr. Fulton.

Mr. RYAN: I do not think that the removal of that paragraph would alter the position of the bill at all, constitutionally.

Mr. FULTON: Thank you. Mr. Chairman, I am finished.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In line with what Mr. Fulton said a moment ago about the lender of last resort, I was wondering, Mr. Sharp, what the implications of subclause (a) of clause 11 are in that connection. It says that the corporation may make loans or advances to member institutions. Is this not somewhat on the same line that Mr. Fulton just spoke about?

Mr. SHARP: Yes. The purpose here is to give a lender of last resort facility to trust and loan companies and other deposit-taking institutions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): So the problem is that Mr. Fulton was talking about institutions that are not deposit-taking institutions?

Mr. SHARP: That is it.

Mr. FULTON: Except, I think, that Mr. Rasminsky gave evidence that there can be wide differences of interpretation as to what is or is not a deposit-taking institution. It is clear that the purpose of this bill is only to cover those institutions which are of the trust and loan type, and I would not argue that the kind of institution I have been talking about is readily identifiable to them. I was talking about an extension to cover them.

The CHAIRMAN: Mr. Thompson is next, followed by Mr. Macdonald.

Mr. THOMPSON: Mr. Chairman, I have one or two questions to ask either the Minister or Mr. Humphrys. How soon after this bill becomes law would you expect that the Canada Deposit Insurance Corporation would become effective?

Mr. SHARP: Perhaps you could reframe that question and ask: "How soon after it became law could it become effective?" and then perhaps Mr. Humphrys could answer that question.

Mr. THOMPSON: All right. How quickly do you see the Corporation actually extending its benefits to federally chartered institutions?

Mr. HUMPHRYS: I would hesitate to name a specific number of days, but I would think that it could come into operation very quickly after the bill becomes law.

Mr. THOMPSON: One or two months?

Mr. HUMPHRYS: I would think within a month, yes, easily.

Mr. MORE (*Regina City*): I take, from the amendment, that it would be 30 days.

Mr. HUMPHRYS: I would hope so. The problem would be to draft the bylaws, have them approved by the Governor in Council and set up a minimum amount of machinery to perform the functions. I think though with the help of the staff of existing departments, that it could be put into operation quite quickly.

Mr. THOMPSON: My reason for raising this question—centres around the thought of whether it would be your intention to recognize all of the institutions involved simultaneously—which would mean that you would have to investigate their financial position and this would take some time. There would be a likelihood of it being inequitable unless recognition could be extended in the first instance simultaneously.

Mr. SHARP: Mr. Chairman, may I draw attention again to the remarks, that I made on second reading of this bill when I dealt specifically with that question I said at page 12621 of *Hansard*:

> It would be undesirable for federal institutions to be insured earlier than insurance would be available to provincial institutions. To expedite making insurance available to provincial institutions it is contemplated that the deposit insurance corporation would be prepared to cover all the existing deposit accepting trust and loan companies of a province if the province concerned so requested, even before the corporation has made an examination into the affairs of the individual companies and ascertained if they were eligible for insurance.

Mr. THOMPSON: That is on page 12621?

Mr. SHARP: Yes.

Mr. THOMPSON: Well, this answers my other question. What I was going to ask was, would there be sufficient time allowed for those provincially chartered institutions who wish to come under the initial recognition to do so in the first instance. I would assume from this statement that that would be your intention.

Mr. SHARP: That is the intention. We would like to bring the scheme into effect over as wide an area as possible at the same time. If a province does not want to make a request like that to us, which has some financial responsibilities resting upon the provincial government, then they would simply tell their companies that they could insure or must insure and the Corporation would make an inspection, and after it was satisfied as to the financial management of the deposit taking corporation it would cover it.

Mr. THOMPSON: In other words, you are prepared to extend coverage and if more time was necessary for investigation this could be done afterwards. This question comes as a result of inquiries that have come to me. Also, at this particular moment practically all of the legislatures are in session and it becomes a very timely thing that they know this and that action be taken now so as to not work unfair hardship on any institution as far as competition is concerned. I think that is all, Mr. Chairman.

Mr. SHARP: I told the Committee, Mr. Chairman, as you will recall, that I had written to all the provincial governments, enclosing copies of my remarks on second reading of this bill.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I would like to revert to a line of questioning that I was pursuing this afternoon; it refers to clause 2, subclause (e), the definition of deposits. I think it is generally understood that what is meant primarily by "deposit" is deposit into a savings account. I am not so certain how far you would go with respect to other instruments issued by this type of institution, guaranteed investment certificates and so on. I realize that the way is left open to the Corporation to define what a deposit is but I wonder if the Minister has anything definite in mind.

Mr. SHARP: Mr. Chairman, this is an important question. I will try to be as forthcoming as possible.

In my speech on second reading I made some general comments, and I said this on February 3 at page 12622 of *Hansard*:

> Except in the matter of the maximum size of deposit to be insured, namely $20,000 it has been thought best to leave some room for flexibility in the definition of insurable deposits. It is proposed, therefore, to define the kinds of deposits eligible for insurance under the by-laws of the corporation which will require the approval of the Governor in Council. All the usual kinds of savings and current deposit accounts will be insured. In addition, it is the intention to include special forms of term and notice deposits and deposit-like instruments which are issued by some institutions.
>
> It may be desirable to ensure a clear, public understanding of what is insured and what is not insured by bringing about some clarification in the names used to describe certain deposit instruments. But so far as the existing situation is concerned the intention is to go as far as possible to make insurance available for all types of deposits and deposit-like instruments provided only that they are not instruments clearly in the category of securities rather than deposits.

I have been discussing this with my officials; they have suggested a general framework within which we will probably operate, and I know that this is a burden on Mr. Humphrys but I wonder if he might not describe in general terms what we have in mind. I cannot commit the Governor in Council so Mr. Humphrys will be talking in general about the kind of instruments that we think should be insured now, and he will give some indication of the sort of changes that might come about after we have insurance in effect to re-describe or re-define the instruments.

Mr. HUMPHRYS: The area that was being considered, as Mr. Sharp described, was to define the deposit as to include three types. The first would be deposits repayable on demand. These would include the type of instrument, the type of receipts and deposits normally thought of as deposits; that is, deposited to a running account with the receipt being acknowledged by an entry in a pass book or an entry in the institution's books. The second category would be deposits or moneys received that are repayable on notice, the notice not to exceed five years. The third category would be moneys received in exchange for an instrument that promises to repay the moneys at a fixed date in the future, the fixed date not to be more than five years from the date that the moneys were received.

In summary, on this plan deposits would be defined as demand deposits and term deposits up to five years.

After the plan comes into force it would be desirable that there be no confusion in the minds of the public as to which types of moneys or obligations are insured and which are not, so that we would propose some terminology that would make it clear which obligations of an institution are insured, probably by the use of the word "deposit" on an instrument given as receipt for moneys. Of course, the kind of moneys received and entered in a pass book would be insured and they would be recognized as deposits in the ordinary sense.

With respect to obligations on the books of an institution at the time the act comes into force, some expansion of this might have to be made to recognize the fact that terminology used prior to the date this plan became effective would not be quite as precise as we would want it to be after the insurance is effective.

The CHAIRMAN: Are there any further questions?

Mr. MACDONALD (*Rosedale*): You would therefore give the word "deposit" a secondary meaning, in the sense of the carrying out of the implications that are insured under this act.

Mr. HUMPHRYS: Yes.

Mr. MACDONALD (*Rosedale*): And would permit its use otherwise in respect of things of this kind.

Mr. HUMPHRYS: I think it would be desirable to forbid its use on instruments that are not insured, or at least if it is used to make sure that the instrument is clearly marked "Not Insured", so that there is no misunderstanding on the part of the holder.

Mr. MACDONALD (*Rosedale*): And if the particular instrument had anything on it about security, it would not be covered by the insurance.

Mr. HUMPHRYS: It was thought that if moneys are received in return for an instrument made payable to the bearer or an instrument that is clearly designed to be a negotiable instrument that that would not be insured.

Mr. WAHN: Do you think there would be any resistance on the part of any institutions to mark non-insured instruments clearly to that effect—in other words, to have them mark in red, "This is not an insured instrument." or "This security is not insured under the federal government Deposit Insurance Act." They might resist doing that, and yet insurance policies have marked in red, for example, something to this effect, "This policy contains a co-insurance clause". I can see that some confusion could be caused if an institution secures public recognition as one that is insured under this act, but if it is taking insured deposits and issuing uninsured securities the public might be mislead unless great care is taken to mark these instruments clearly.

Mr. HUMPHRYS: I would not think that any institution would want to stamp any of its instruments "not insured". Personally, I think that the better course would be to avoid the use of the word "deposit" except on instruments that are insured.

Mr. WAHN: You think that would be sufficient to avoid public confusion.

Mr. HUMPHRYS: And to include the word "deposit" in some fashion on every insured instrument.

Mr. MACDONALD (*Rosedale*): Perhaps this question should be addressed to Mr. Scott. As a matter of interest, are the certificates which the chartered banks

are currently issuing for payment over a longer period—that is, not on demand—negotiable instruments?

Mr. W. E. SCOTT (*Inspector General of Banks*): I think that some of them can be transferred and others cannot. I think it is a mixed bag.

Mr. MACDONALD (*Rosedale*): Then, Mr. Humphrys, would the quality of negotiability be an essential element in that type of instrument?

Mr. HUMPHRYS: I think that perhaps it is not possible to give a precise answer at the moment. It was thought that some instruments are issued clearly for the purpose of trading in the investment market and that it would be reasonably easy to identify them. But there are other instruments, such as debentures issued by loan companies, that are not primarily issued as negotiable instruments, although they may be traded, and there may be a limited market for them. We would think that instruments like that, that are not essentially issued for the purpose of investment trading, would be insured whereas the other type would not. It may be that we would get into some problems on borderline cases. These are some problems that will have to be worked out in the actual circumstance.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, may I put a question to Mr. Ryan with respect to his answer to the final question by Mr. Fulton. I take it that in the reply that he gave he felt that clause 16 (a) neither adds nor subtracts from the rights accruing to your clients but that you were not offering any opinion as to the probability of litigation.

Mr. RYAN: I was offering no comment on that point. I may clarify my reply, if I may, Mr. Chairman, and add one more thing. I do not think that its inclusion or removal affects the constitutional position as a matter of law.

Mr. MORE (*Regina City*): It would not alienate any of the jurisdictions by its inclusion?

Mr. RYAN: Not as a matter of law.

Mr. SHARP: This is a very important point, Mr. Chairman, because it had been urged by Mr. Fulton, whether for political or legal reasons, I am not certain.

Mr. MORE (*Regina City*): Let us keep this clean.

Mr. MACKASEY: Let us leave the legal reasons out of it.

Mr. FULTON: Politics is clean.

Mr. MACDONALD (*Rosedale*): Well, perhaps Mr. More could define for us which he thinks is cleaner.

Mr. SHARP: Well, it had been urged by Mr. Fulton, at least I thought it had, that the inclusion of such a provision would prejudice future rulings in relation to the jurisdiction of parliament over banking. I gather from what Mr. Ryan has said that he does not agree with you.

The CHAIRMAN: Are there other members who have questions at this time?

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, I would have a comment to make on Clause 34. Reading this Clause I am struck by something which seems to be wrong. In

all due deference to the Minister of Finance, I see that the Governor in Council may authorize the Minister of Finance to advance, out of any unappropriated moneys in the Consolidated Revenue Fund... It seems that it is wrong to ask that the Minister of Finance be submitted to the authority of the Governor. There seems to be something wrong in Clause 34. What do you think of it, Mr. Minister?

(*English*)

Mr. SHARP: It is not often that I have a Member of Parliament who puts me over the government; because I find the Governor in Council resists my efforts to control it.

(*Translation*)

Mr. LATULIPPE: I understand that this is the governor of the corporation.

The CHAIRMAN: No, it is not the governor of the corporation. It is the Governor in Council, that is the Government, the Cabinet.

Mr. LATULIPPE: I thought it was the governor of the corporation.

The CHAIRMAN: This is a legal term which means the Cabinet.

Mr. LATULIPPE: Now, "Consolidated Revenue Funds up to five hundred million, to the corporation". Why five hundred millions, Mr. Minister? What would be the use of these five hundred million dollars advanced from the Consolidated Revenue Fund?

(*English*)

Mr. SHARP: Mr. Chairman, this is for purposes of making loans to companies that are insured in order to improve their liquidity. This is to meet the problems that sometimes arise with these organizations when they borrow on short term and lend for long periods and occasionally get into difficulty in meeting their maturing obligations.

This would enable the corporation to make advances to deposit-taking institutions to enable them to meet their obligations pending the maturity of their investments.

(*Translation*)

Mr. LATULIPPE: Do you think that there will always be money in this Fund? Should there not be any money left in the Consolidated Revenue Fund and the Corporation applies for some. Would it have to wait in such cases?

(*English*)

Mr. SHARP: Well, Mr. Latulippe, I should not tell you that if I followed your doctrine of Social Credit I would just print the money and make sure there was enough.

The CHAIRMAN: I think these discussions on monetary policy had better be reserved until we return to the Bank Act.

Mr. THOMPSON: You are speaking to the Minister of Finance, I hope and not to Mr. Latulippe.

The CHAIRMAN: I presume, Mr. Sharp, dealing with Mr. Latulippe's point, that the advances to be made under the clause are only in so far as the

Consolidated Revenue Fund is in funds to permit this to be done? That is your point.

Mr. SHARP: Oh, yes. The Consolidated Revenue Fund has all the revenues, taxation and borrowed money that the federal government has at its disposal, and I do not think any circumstances would arise under which the Consolidated Revenue Fund would run out of cash to meet its obligations.

(*Translation*)

Mr. LATULIPPE: If there is nothing left, the people are taxed.

The CHAIRMAN: Well, gentlemen, I think that I am in a position to ask the Committee whether clause 1 shall carry.

Clauses 1 and 2 agreed to.

The CHAIRMAN: Shall clause 3 carry? Did you have a question, Mr. Fulton?

Mr. FULTON: I thought I had some comments somewhere on clause 3. Will you give me one moment? No. I have no questions on clause 3.

Clauses 3 and 4 agreed to.

The CHAIRMAN: Shall clause 5 carry?

An hon. MEMBER: We have an amendment here.

On clause 5—Board of Directors.

The CHAIRMAN: Oh, I beg your pardon.

Mr. FULTON: We have some amendments here.

The CHAIRMAN: Oh, I am sorry. I have them out of order.

Before completing our consideration of clause 5, I understand that the government wishes to propose an amendment. It has been distributed.

Before putting it forward I would like someone on the Committee to move the amendment.

Mr. FULTON: I am sorry, the first one I have of the papers distributed is Clause 6. Did I miss one?

The CHAIRMAN: It is clause 5. I actually had my copy out of order, as well.

Mr. WAHN: I so move.

Mr. MACDONALD (*Rosedale*): I second the motion.

That Bill C-261, An Act to establish the Canada Deposit Insurance Corporation, be amended by striking out line 35 on page 2 thereof and by substituting therefor the following:

Acting Chairman.

"(3) Where the office of Chairman is vacant, the Minister may appoint, for a period not exceeding ninety days, an Acting Chairman who shall, while so acting, be a member of the Board of Directors and have and exercise all the powers of the Chairman.

Travelling allowances.

(4) A member of the Board of Directors of the"

The CHAIRMAN: Perhaps I should invite the officials and the Minister to give us any brief explanation they may want to put before us, although I think the amendment speaks for itself.

Mr. HUMPHRYS: Mr. Chairman, this amendment is designed to enable the Corporation to get into operation more quickly and to appoint a chairman for a temporary period.

The CHAIRMAN: Shall the amendment carry?

Mr. FULTON: This inserts a new provision, does it not?

Mr. HUMPHRYS: Yes.

Clause 5 as amended agreed to.

On Clause 6—*Chairman.*

The CHAIRMAN: The government is also proposing an amendment by adding after subclause (5) a new subclause (6).

Mr. THOMPSON: I do not have an amendment on 6.

The CHAIRMAN: Probably inadvertently they were not distributed in complete sets.

While they are being distributed, I will read the new proposed subclause (6).

> (6) A vacancy on the Board of Directors does not impair the right of the remainder to act.

Mr. Wahn, perhaps you could propose this amendment.

Mr. WAHN: Yes, Mr. Chairman.

Mr. FULTON: Mr. Chairman, I am sorry, but would you mind my suggesting that this would be more appropriate as an addition to clause 5? Clause 5 constitutes the board, etc. and clause 6, it seems to me, is almost entirely concerned with the office of chairman. Here, it seems to be, we are going back to deal with the board.

Mr. WAHN: There is nothing in clause 6 dealing with the board.

Mr. SHARP: I am advised by our legal adviser that you have made a good point.

The CHAIRMAN: Shall we then revert to clause 5 and the motion moved by Mr. Wahn, seconded by Mr. Macdonald with respect to this amendment be deemed to be included under clause 5.

Mr. FULTON: Subclause (5) of clause 5.

The CHAIRMAN: Yes, and the amendment be such that it be changed to read that after subclause (4) of clause (5)—

Mr. FULTON: —of clause 5, the following be added.

The CHAIRMAN: —the following be added; and this, of course, would be—

Mr. FULTON: Subclause (5).

The CHAIRMAN: Subclause (5).

Mr. WAHN: Would it not be better after subclause 2 of the present clause 5? Clause 5(2) deals with absence and incapacity and this gives the right to those who are not absent or incapacitated. If we made it (3) and renumbered—

Mr. FULTON: Yes.

Mr. WAHN: —the present 3, 4 and 5 it seems to me it would be more in order.

The CHAIRMAN: We could do it that way as well. Mr. Ryan, do you have any suggestion?

Mr. RYAN: Not as long as it is in, Mr. Chairman. It was a drafting oversight. It is just one of these things.

The CHAIRMAN: Yes. All right. Let us give this another try. We wish, in effect, to propose that this subclause with regard to vacancy on the board of directors be inserted immediately after subclause (2) of clause 5 and that it be, therefore, (3) and that the other clauses following be renumbered (4) and (5).

Mr. RYAN: Right.

The CHAIRMAN: That is understood?

Clause 5 as further amended agreed to.

Clauses 6, 7, 8, and 9 agreed to.

On clause 10—*Provincial institutions.*

Mr. THOMPSON: All you are doing in clause 10 is defining a provincial institution as compared to clause 9 which does the same for federal institutions? Is that correct?

The CHAIRMAN: Mr. Ryan, would you care to answer the question?

Mr. RYAN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, could I ask a question now of, perhaps, Mr. Humphrys?

Is it possible that there may be some institutions that we might want to have brought under this act that would not fall within the meaning of the Trust Companies Act or the meaning of Loan Companies Act? Would there be any that might be outside of these?

Mr. HUMPHREYS: Yes; financial investment companies.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No; they would not be depositors.

Mr. THOMPSON: I suggest, Mr. Chairman, that we might reword clause 10. It is a very, very long cumbersome sentence which is finally completed, in the last four words. Would it not be better to follow the pattern of clause 9 and say "For purposes of this Act a provincial institution is (1)..." and begin that way? It has only to do with grammatical structure. I struggled through this long sentence to find it completed in the last four words.

The CHAIRMAN: Mr. Ryan, would it be better to begin as you do in clause 9?

Mr. RYAN: It is not quite so easy in its grammatical structure because we are using an enumeration, Mr. Chairman, in clause 9. If you start clause 10 that way you have a bit of initial awkwardness—"For the purpose of this Act, a provincial institution is (1) an incorporated company that carries on under provincial..." etc. etc. etc., and it appears as though you are saying what shall be a provincial institution in a province, rather than—

Mr. THOMPSON: Well, I am reading it as a school teacher not as a lawyer, I guess.

The CHAIRMAN: There is nothing wrong with that. A lawyer has got to stay in business. That is why you get these clauses.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): If you make it too simple, they would be out of work.

Mr. HUMPHRYS: To answer Mr. Cameron's question I think that this defines the type of institution that we thought should be included in a plan such as this. It may be that there are some types of institutions existing in a province that are pretty close to this but perhaps do not fall under it. I do not think we can really tell positively until we have had a complete survey of just what is existing. In some provinces they may not be too sure about the powers of some of the institutions that are in the financial intermediary business itself. Therefore, some things may have to be worked as we get more information.

Mr. GILBERT: Mr. Humphrys, what is a constating instrument?

Mr. HUMPHRYS: Perhaps I should have Mr. Ryan answer that. It is a good word. It is the document that creates the corporation, as I understand it.

Mr. RYAN: And which is publicly registered in some formal fashion.

As a matter of curiosity, it comes from the Insurance Act. Mr. Humphrys should be familiar with it.

Mr. HUMPHRYS: The federal Insurance Act.

Mr. RYAN: Yes, the federal Insurance Act.

The CHAIRMAN: Shall clause 10 carry?

Mr. LAFLAMME: Have we an amendment to clause 6 which we have missed?

The CHAIRMAN: No; we decided to insert it in clause 5.

Mr. LAFLAMME: All right.

Clause 10 agreed to.

On clause 11—*Powers of Corporation.*

Mr. FULTON: May I raise one question.

The CHAIRMAN: Yes.

Mr. FULTON: In subclause (g) I wonder if the words "or by by-law" should be included?

An hon. MEMBER: What clause is that?

The CHAIRMAN: Subclause (g) of clause 11.

Mr. FULTON:

> make or cause to be made such inspections of a member institution as may be authorized under this Act or the policy of deposit insurance;

Frankly, in the later clauses I do not see very many specific requirements for inspection, and I am wondering, therefore, whether it was the intention to cover this by by-law. If so, I am wondering if we should specifically say "or by by-law".

Mr. HUMPHRYS: I think there will be an amendment, Mr. Fulton, that bears on that point and requires an annual inspection of every insured institution.

Mr. FULTON: Where are the amendments proposed?

The CHAIRMAN: Clause 22.

Mr. FULTON: That answers my question.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I am sorry, Mr. Chairman; I wonder if I could refer to this again? I am revealing my ignorance.

> ... institution as may be authorized under this Act or the policy of deposit insurance.

I do not quite understand what that means.

Surely everything that is going to be done in this must be done under the authority of the Act?

Mr. SHARP: Well, it was pointed out, Mr. Chairman, that the federal companies may not be issued with policies, so they are required to be insured.

Clause 11 agreed to.

On clause 12—*Powers of directors and by-laws.*

Mr. FULTON: Again by way of question only, I wonder whether it would be desirable to add to sub clause (h) at the end thereof, the words: "and to provide for the inspection thereof".

The Board of Directors administer and may make bylaws to provide or as following:

> prescribing standards of sound business and financial practices for member institutions;

and to provide for the inspection thereof.

Is that also covered by the proposed amendment?

The CHAIRMAN: The proposed amendment to clause 22 reads:

> The Corporation may require; and the corporation shall cause an examination of the affairs of the company to be made at least one in each such year.

Mr. FULTON: At least once; so you may require, or shall cause, rather to be made; and that would not have to be included in the bylaw, in your opinion.

The CHAIRMAN: I do not know if Mr. Ryan will agree but it may be that subclause 1(a) and subclause 1(j) may be wide enough to cover making bylaws with regard to inspections. I just throw this thought out for consideration.

Mr. RYAN: Well, the inspections, as such, are covered by clauses 21 and 22. In the case of the federal companies it is prescribed by the statute. In the case of the provincial companies it is bound up in the policy of deposit insurance which in itself is in the form prescribed by the the bylaw.

Mr. MORE (*Regina City*): As the Corporation may require...

Mr. FULTON: The Corporation is probably required by bylaw.

Mr. HUMPHRYS: The idea is that the Corporation would have discretion to make an examination whenever it wished, depending on the circumstances.

Mr. FULTON: Would you not have to have a meeting of the directors each time and direct that an examination be made?

Mr. HUMPHRYS: Well, not necessarily. The directors might, for example, delegate a decision in that respect to the principal officer of the corporation.

Clauses 12 and 13 agreed to.

On clause 14—*Insuring Federal Institutions.*

We have an amendment to clause 14. It is an amendment calling for the striking out of the existing subclause (5) and the substituting of another subclause reading:

> This section shall come into force on a day to be fixed by proclamation of the Governor-in-Council.

Perhaps I can have Mr. Ryan and Mr. Macdonald move the amendment formally so that we have it before us. Are there any questions or explanations?

Mr. FULTON: Is this for the purpose the Minister has alluded to of bringing the provincial institutions under from the earliest possible date?

Mr. HUMPHRYS: Yes; it also enables this plan to go into force as quickly as can be managed without having to wait a minimum of thirty days.

The CHAIRMAN: Shall the amendment carry?

Clause 14 as amended agreed to.

Clause 15 agreed to.

On clause 16—*Insurance of Provincial Institutions.*

Mr. LAFLAMME: On this clause I would like to raise again what I think is a really important question. I do not want to embarrass the Minister but, unless the minister can give us the assurance, that any provincially-incorporated institution will not be vetoed by any provincial government saying No, I think that the words

> is authorized by the province of its incorporation

should be deleted.

I really think that we are creating difficulties for any provincial institution that would be willing to enter into the federal scheme. By not removing those words, any provincial government that wants to pass legislation forbidding any provincial institution from entering into the federal scheme should bear the burden of that responsibility in the minds of the public and should freely allow the provincial institutions to enter into the scheme if they wish to do so. Unless, Mr. Minister, you can give that assurance, that no provincial government could be in the position of just saying, "No, you will not enter," I cannot see what is the purpose of that clause saying that the provincial institution is authorized by, if the provincial institution is authorized by the province of its incorporation.

I have really strong feelings about it. We live in a free country. We should not forbid any provincial institution from entering into the federal scheme if they wish to do so. If we delete those words and we have a provincial institution that is forbidden entry into the federal scheme, then the provincial government will have to bear, in the minds of the public, the burden of any such legislation.

Mr. MACKASEY: Mr. Laflamme, this is only a point of clarification. I have noted two points of view tonight. I have seen this happen previously in the Fulton-Favreau formula, where both people claim they are right but for different reasons.

I sensed from Mr. Fulton's remarks earlier that he was concerned about the federal jurisdiction over banks being invaded by provincial governments, and I sense a little in yours—and I can be wrong here—the fear that we are infringing in provincial areas?

An hon. MEMBER: No, no; quite the contrary.

Mr. MACKASEY: All right. However, in the meantime, while this government is taking its responsibility, the provincial institutions have to wait for the provincial government to make up its mind; whereas, if this clause is in effect a particular institution in the province of Quebec can take the initiative and say, "We want to take advantage of this particular Act," and can then apply to the provincial authorities for permission. Would this not force the issue that you are concerned about?

Mr. LAFLAMME: If they say No, without legislation at all.

Mr. MACKASEY: Well, if they say No, will this not be made just as much public as if they do it by way of legislation?

Mr. LAFLAMME: Well, then, what kind of authorization is required from any provincial government?

Mr. MACKASEY: Perhaps Mr. Sharp can answer what, in his opinion, he would consider to be official assent or authorization by a province for a particular provincial institution to take advantage of this Act?

Mr. FULTON: I would say it is a matter between the provincial government and the applicant.

Mr. MACKASEY: You have not been promoted to minister yet. I want to get this from the Minister. Mind you, if I were a promoter I would place you there fast if there was an all-party coalition some day.

Mr. SHARP: I wanted to speak to this point which I understand is a matter of some delicacy. I can understand the misgivings of members of the Committee.

The purpose of putting this clause in the bill was to create a climate of co-operation with the provinces. It is our belief that if we do require the institutions to go to the provincial government to get permission before they apply we will then know that we will have the co-operation of the provincial government in carrying out the intent of the legislation.

It may be, for example, that after inspecting some of these institutions we may want the province to change its laws or its administration of the affairs of these companies.

By making it quite clear in the legislation that we will not take on one of these companies without the co-operation of the provincial government we believe that we will, in fact, improve the climate of co-operation; otherwise we would not have put it in.

As I say, I have every reason to believe that in nine provinces there will be no question about it. In the tenth province, I am by no means pessimistic, and I believe that the fact that we have invited their co-operation will improve the chances of getting all their deposit-taking institutions under this law.

For us to say that we will insure these institutions, even if the province does not give specific authority, will be to invite, we believe, a less co-operative attitude.

Now, this is purely a political consideration and I can only urge it upon the Committee in that light.

Mr. MACKASEY: What you are saying, Mr. Sharp, is that you are hoping by this clause to obtain the most desirable form of protection for all Canadians, in the particular case of Quebec, through co-operation rather than having a head-on battle about who has jurisdiction over what.

In other words, the interest of Canadians would be best served if you could arrive at the desired result through co-operation rather than through a legal battle?

Mr. SHARP: May I add this other word by way of explanation? When we originally spoke of this legislation, when I was discussing the Bank Act on second reading, and, even later, when I introduced the resolution, it had been our intention to give the provinces a much longer time to have a good look at the provisions of this legislation. We had promised this to the provincial ministers and to the provincial officials when we had informal discussions with them on the matter.

For reasons that I think are compelling, we are moving ahead with this legislation much more rapidly, and before there had been an opportunity for the kind of discussion that under other circumstances I think is most desirable. Therefore, I certainly do not want, by any action that we might take here, to prejudice in anyway the success of this legislation. I do believe that if we were now to remove that limitation it would not help to improve the climate of co-operation.

Mr. GILBERT: Mr. Sharp, are you saying that nine provinces have indicated their co-operation with regard to provincial institutions?

Mr. SHARP: I have not had personal contacts with the ministers, but my officials have with the officials of those governments. The officials who had those contacts are here and I think they will confirm that the attitude of nine of the provinces is very co-operative.

The CHAIRMAN: Are there any further questions or discussion?

Mr. FULTON: I can see the Minister's point. On the other hand, I can see very real chaos developing here if we leave any doubt about the matter, because there are important companies within the ambit of this bill, which are provincial incorporations; and they do business all across Canada. They, and financial institutions in general, as we have then now, would be, disrupted very severely if they were unable to carry on their cross-country operations.

What situation do we have, therefore? If company "A" is doing business in 10 provinces, and 9 of those provinces—or any number of those provinces, perhaps nine—were to say: No company may take a deposit in this province unless that deposit is insured under the federal legislation", but one province in which the head office of that company is located were to say, "This company may not subscribe to the federal deposit insurance scheme," the branch offices would either have to defy the authority of the province in which they are carrying on business, or they would have to close them up.

I wish the Minister could give us the assurance that Mr. Laflamme asked for. I appreciate that we are having to move more quickly than had been the original intention, as we have a dilemma here. As the resolution of the dilemma, though, the one that I have referred to would be far more damaging over-all than the to act in haste.

Personally, I do not think that that lack of co-operation will develop, if you possibility of a lack of co-operation on the part of one province because we had leave entirely up to the company whether it applies or not. You are not compelling it to apply, but you are giving the veto here to any province with respect to the operation of the federal scheme.

This is a scheme within federal jurisdiction, without question, and I find it, I am afraid, impossible to allow such a proposal to pass without my utmost resistance. I am not talking about the whole bill. I am talking about this particular section. There is only one way that I can carry my resistance to the utmost, as I see it.

Mr. MACKASEY: Mr. Chairman, unless Mr. Sharp wants to comment on Mr. Fulton's observation, may I say that I can appreciate that this is a federal act, and I certainly understand his very telling argument about an organization that does banking coast-to-coast; but I, as a Quebecer, am very aware, as is Mr. Laflamme, of a broader aspect of the problem. Obviously, whether or not it is fully established in Mr. Fulton's opinion about what is federal and what is provincial here, there is obviously in your mind, and in your officials' minds, a degree of uncertainty about who is right constitutionally.

You have put in this particular section to avoid what I might call another incident between the federal and provincial governments, which could, and in all probability will, be resoleved through a series of conferences which normally would have taken place before this bill become a reality. You do, intend to go ahead, I understand, with these conferences, and if they are as successful as you anticipate then this clause (a) will no longer assume the same significance.

In the meantime, however, it does permit Parliament to go ahead with a very desirable bill, and avoid another source of conflict between any provinces—not necessarily Quebec—and the federal government. Now, this, I feel, is the philosophy behind the inclusion of this particular clause. I am quite willing to agree to an amendment to remove it if somebody can convince me of the desirability of creating the possibility of a head-on collision with a particular province, which could jeopardize the whole bill.

Mr. FULTON: I would like to offer this possible compromise. I appreciate the delicacy of the position.

I think it may preserve Mr. Sharp's ability to negotiate, while preserving our position, if we were to add as an amendment: "Provided however that the operation of this section shall be reviewed by Parliament within six months", or something to that effect, so that we know the position.

The CHAIRMAN: Do you mean the whole section or as far as subclause (a) is concerned?

Mr. FULTON: Well, I think it should be the whole of Clause 16—six months after the act comes into force.

Mr. CHRÉTIEN: But is it not always possible to change the law if we see that there is something wrong with it?

Mr. FULTON: No private member can move—

Mr. CHRÉTIEN: But the government is concerned to have the law working well. If there is some problem at that time we can change it.

Mr. FULTON: This is our last chance.

The CHAIRMAN: Order, please. Mr. Chrétien had the floor.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I think I asked exactly the same question, and the Minister's reply is on the record.

Mr. SHARP: May I, Mr. Chairman, just read what I said on second reading on this point. This is again at page 12621 of *Hansard*.

An hon. MEMBER: February 3?

Mr. SHARP: Yes.

> I realize that by going ahead at once on this proposal we will not have as full consultation with the provinces before the legislation comes into effect as we had originally hoped to have. It is not intended that passage of the legislation will close the door to further discussion with the provinces, and I will continue to give serious consideration to any suggestions that may be made. However, in the light of the views that have been expressed in the house and in the committee which is considering the bank bills, the government has reached the conclusion that we should not delay the availability of deposit insurance while further discussions with the provinces proceed.

This is one of the main reasons for our being doubly careful not to create the impression that we are forcing some legislation ahead without regard to the sensibilities of the provinces who may not have the same view of the constitution that we have.

Mr. MACKASEY: You made the statement that you were pushing this bill in hurry because of a possible adverse reaction at a provincial-federal conference.

The CHAIRMAN: I am sorry, Mr. Mackasey; Mr. Thompson has the floor.

Mr. THOMPSON: We have only a couple of minutes, Mr. Chairman, and I would say to Mr. Fulton: Supposing we agree with what is your basic thinking behind this—I think I understand what it is—are we, the federal Parliament, able to say to a provincial organization that has a provincial charter; "We will take you whether you have the permission of the provincial government or not?" I am just making a statement now. Can the created say to the creator, "Why have you made me thus?"

It would be an impossible situation, and it seems to me that in such an event the provincially-chartered institution that may not have the permission of its provincial government that granted its charter to accept, or come under, the coverage of this insurance would then only have the alternative of seeking a federal charter.

Some hon. MEMBERS: That is right.

Mr. THOMPSON: This is why I was questioning this before. As long as this law is open, and as long as the policy of the government is to encourage such to come, then you are, by legitimate means, bringing about the very thing that you believe is right, and which I would tend to agree with, which is the matter of federal control and jurisdiction over financial institutions and financial policies?

Mr. MORE (*Regina City*): Does it not work the other way, too. If we do not have this proviso in there then a provincial company, on a voluntary basis, is free to come within ambit of the act. It does not stop the provincial authority from vetoing it, and if they veto it then their alternative is to become federally chartered.

Mr. THOMPSON: Yes, but how can a provincial institution become part of this against the wishes of the government of that province, or the administration of that province that granted its incorporation?

Mr. MORE (*Regina City*): We are not aware that they are against it. All we are doing is providing a door.

Mr. THOMPSON: The door is there anyway, and it is a legitimate and a proper door, I think.

Mr. FULTON: I must say that my view is that what is involved here is the surrender of a federal juristiction, and the purported creation of provincial jurisdiction which is not conferred by the constituton. I do not care what province it is. I object ot the inclusion of ths clause, even if the ten provinces agree.

Mr. THOMPSON: Well, you saw what happened to the Fulton-Favreau formula. You have not faced the facts.

Mr. FULTON: There will be further discussion. We were seeking there an amendment to the constitution. Here we are dealing with a power conferred by the constitution which does not involve any amendment at all, in my submission.

Mr. THOMPSON: But as long as there is a provincially-chartered company, is it within our authority to say to that organization, "We are going to lay down what you should do"?

Mr. FULTON: We are not; and I am not suggesting it. We are legislating if my suggestion is adopted that in a field of undoubted federal jurisdiction—our authority over banks and banking—institutions that take deposits in Canada shall have available to them a federal deposit insurance scheme.

Mr. THOMPSON: But is not the way to do that—

Mr. FULTON: That is what I am suggesting we say; and I say that no province has the jurisdiction to veto the voluntary entry of a provincially-incorporated institution into such a scheme which is set up under our jurisdiction.

Mr. SHARP: Mr. Chairman, may I offer just one comment on that. I do not think this is quite the point. Our purpose in putting that in was to improve the climate for co-operation. We want to have the co-operation of the provinces in supervising these corporations. The provinces certainly have the power of supervising those corporations—they are their own corporations—and we would like to have them co-operating with us in doing that. Therefore, we put in this

clause so that it would be clear that we were not going to do these things without their specific approval.

The CHAIRMAN: Mr. Monteith wanted to raise a point of order.

Mr. MONTEITH: Our time is running out very rapidly; we have about another 30 seconds. I notice we are scheduled to meet tomorrow morning at 9.30. This does not give us too much opportunity to think about the matter. I am wondering if we might meet on Monday evening? This would give both the Minister and the officials time to think over the discussion that has taken place here.

Mr. FULTON: I am sorry, it is impossible for me to be here on Monday evening, or, indeed, on Tuesday.

Mr. SHARP: I would prefer, too, Mr. Chairman, to get this through. I would like to have it before the Senate as soon as possible.

Mr. MACKASEY: Mr. Chairman, we have heard the pros and cons. Why not let Mr. Fulton make a motion to remove clause (a) and see what the Committee feels about it?

Mr. SHARP: What is the possibility of a meeting tomorrow morning?

The CHAIRMAN: Well, it is scheduled, but it is up to the committee; the notices have been sent out.

Mr. FULTON: I will make the motion.

The CHAIRMAN: You are moving that—

Mr. FULTON: I move that Clause 16 be amended as follows:

1. By deleting (a)
2. By renumbering paragraphs (b) and (c) as paragraph (a) and (b) respectively.

The CHAIRMAN: Is there a seconder?

An hon. MEMBER: I do not know that it requires a seconder in a Committee.

The CHAIRMAN: You may be quite right.

Is there any further discussion? If not, I call for the question. All those in favour? All those opposed? I declare the amendment lost.

Mr. THOMPSON: I do not have the privilege of voting and that is why I am not doing so.

The CHAIRMAN: You are actually substituting for your regular member who is in Guelph.

Clause 16 agreed to on division.

On Clause 17: *Form and contents*

We have an amendment. We will again ask Mr. Wahn and Mr. Macdonald to formally propose the amendment which involves striking out existing subclause (2) and substituting another one.

Mr. WAHN: I so move, that bill C-261, An Act to establish the Canada Deposit Insurance Corporation, be amended by striking out subclause (2) of clause 17 thereof and by substituting therefor the following:

"(2) A contract of deposit insurance with a provincial institution shall be evidenced by an instrument in writing." Policy required.

Mr. MACDONALD (*Rosedale*): I will second the motion.

The CHAIRMAN: It would appear that this is just a simplification of the existing subclause (2). Is that right, Mr. Ryan?

Mr. RYAN: That is right, Mr. Chairman. The reason for it is that there is a desire to put into the contract some of the provisions of the bylaws and the words after the third line in the present clause, would restrict that operation, so they are being removed.

Clause 17 as amended agreed to.

Clause 18 agreed to. On Clause 19: *Assessment of premium*

Mr. FULTON: I have an amendment to offer on clause 19, Mr. Chairman. I will read it just before we adjourn in case we cannot be here tomorrow: That subclause (1) of clause 19 be amended by deleting paragraph (b) thereof, and substituting therefore the following:

> (b) In the case of such deposits as are deposited with the member institution as of the 30th day of April in that year and insured by the Corporation
>
> (1) One thirtieth of 1 per cent on the first 50 per cent thereof.
>
> (2) One fortieth of 1 per cent of the next 25 per cent thereof.
>
> (3) One fiftieth of 1 per cent thereafter.

That would have the effect, for all institutions, that the first 50 per cent of their insurable deposits would carry a rate of one thirtieth of 1 per cent; the next 25 per cent would carry a rate of one fortieth; and the final 25 per cent would carry a rate of one fiftieth.

Mr. MONTEITH: I will second that.

The CHAIRMAN: I think that perhaps we should leave that. You can submit that in the usual way to the clerk.

I would suggest that unless the Committee formally moves, we do not sit tomorrow. However, if such motion is carried, I think we should adjourn till 9.30 tomorrow morning.

An hon. MEMBER: Perhaps we could come back after the vote.

The CHAIRMAN: You can come back after the vote. I am agreeable to that me. Is the Committee willing to come back after the vote?

Mr. THOMPSON: We cannot meet tomorrow afternoon.

The CHAIRMAN: I think many members have to meet commitments in their own riding, and would probably have to get transportation.

Shall we meet at 10.00 a.m. tomorrow instead of 9.30 a.m.?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will adjourn until 10.00 a.m. tomorrow.

FRIDAY, February 10, 1967.

The CHAIRMAN: Gentlemen, I now call our meeting to order. Mr. Fulton has asked to be recognized at the beginning.

Mr. FULTON: Mr. Chairman, since we recessed I have been thinking over the amendment to clause 19 which I presented at the close of our meeting last night

and I have come to the conclusion that it does not really have the effect that I was seeking in proposing an amendment. I thought I had a good formula here. However, I do not claim to be strong in mathematics and I have come to the conclusion that really all it does is, in effect, to lower the rates for everybody from one-thirtieth to somewhere around one-thirty-sixth of one per cent. I have no information at my disposal to prove that a rate of one-thirty-sixth of one per cent is a better, more equitable, or more adequate rate than one-thirtieth. I had hoped, as the Committee will appreciate, to be able to introduce an amendment which would relieve what I believe to be an inequitable share of the burden borne by the institutions that least need deposit insurance. I have come to the conclusion this does not do that, and I would like to ask the Committee for permission to withdraw the amendment. Now, I think Mr. Cameron has something to say.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I was rather taken aback when I found in front of me this morning the amendment which Mr. Fulton proposed, and my name put in as seconder.

The CHAIRMAN: I think it was Mr. Monteith.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, Mr. Monteith. Miss Ballantine confused this with the other amendment I seconded.

The CHAIRMAN: I think we have become such a closely-working team, even to respecting differences of ideology and party philosophy, that—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is too great an affinity.

The CHAIRMAN: You think this is carrying things a little too far?

Mr. MACKASEY: Why is Mr. Cameron so appalled at the close affinity between the two philosophies?

The CHAIRMAN: It is not that exactly. The point of the fact is that he did not happen to second the amendment, and I think that should be noted.

Mr. FULTON: In common with Mr. Mackasey, at least we can say we each had a philosophy.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, that is a sharp distinction.

The CHAIRMAN: I think the Committee will accord Mr. Fulton the opportunity of withdrawing his amendment. I am sure he offered it in a constructive spirit and even Einstein was not very good in mathematics, so we are all in good company in that regard.

Are there further comments with respect to clause 19?

Clauses 19 and 21 inclusive agreed to.

On Clause 22—*Provincial institutions*

The CHAIRMAN: With respect to clause 22, we have an amendment. Perhaps I can ask Mr. Chrétien to move it formally and Mr. Mackasey to second it so that it will be before us. I believe we all have copies of the amendment. I will ask Mr. Sharp or his officials to give us any comments or explanations they feel are required to support it.

Mr. CHRÉTIEN: I move that Bill C-261, An Act to establish the Canada Deposit Insurance Corporation, be amended by striking out line 13 on page 10 thereof and by substituting therefor the following:

"Corporation may require; and the Corporation shall cause an examination of the affairs of the company to be made at least once in each such year."

Mr. MACKASEY: I second the motion.

The CHAIRMAN: Mr. Scott, would you like to comment on this amendment?

Mr. W. E. SCOTT (*Inspector General of Banks, Department of Finance*): Thank you, Mr. Chairman. The purpose of this amendment is just to make it quite clear that the corporation must examine each provincial institution at least once a year. Previously the institution was obliged to submit to inspection but the corporation was not specifically made responsible for doing it.

The CHAIRMAN: Are there further comments or questions with respect to the amendment? If not, I will ask if the amendment is carried.

Amendment agreed to.

Clause 22, as amended, agreed to.

On clause 23—*Contents of examiner's Report.*

On clause 24—*Reporting defects or breaches.*

Mr. FULTON: With respect to clauses 23 and 24, if it is a federal institution and the corporation finds on examination that it is following unsound business or financial practices, then the corporation reports by registered mail to the president or the chairman of the board of directors of the member institution. But it does not seem to me, if the same finding is made with respect to a member institution which is a provincial corporation, that there is any requirement to report. I am wondering why there is a distinction.

Mr. R. HUMPHRYS (*Superintendent, Department of Insurance*): Mr. Chairman, the difference in approach here is that with respect to a federal institution its membership in this corporation is required by law, so that it is not within the power of the corporation to terminate the insurance of a federal institution. There were some limitations to the power of the corporation in disciplining the federal institutions, so it was thought the corporation should ensure that the directors of the member institution knew the views of the corporation and then anything else that had to be done would be done pursuant to the other governing legislation, having in mind the Inspector General of Banks and the Superintendent of Insurance both would be on the board of directors of the corporation. It would be presumed that they would know the views of the corporation and, through the Minister of Finance, would apply the necessary sanctions to rectify improper practices on the part of federal institutions.

In so far as provincial institutions that are members of the corporation are concerned, the corporation would not have the power to force changes in their practices. The ultimate discipline in that event would be to follow the procedure discipline is the withdrawal of deposit insurance.

Mr. FULTON: In this case you would report only to the provincial minister concerned; you would not report directly to the directors of the corporation concerned?

Mr. HUMPHRYS: The corporation certainly would be in correspondence and close consultation with the member institution, but we were hesitant about the powers of the deposit corporation to force the provincial institution to even do such things as lay correspondence before the board of directors.

Mr. FULTON: I see.

Mr. SHARP: In other words, if I understand this correctly, the ultimate discipline is the withdrawal of deposit insurance.

Mr. FULTON: Well, it is bound to come to the directors of the member institutions sooner or later even though the corporation does not report it directly.

Mr. HUMPHRYS: That is correct.

The CHAIRMAN: Are there any further questions with respect to clauses 23 and 24? I gather that clauses 25, 26 and 27 go on to complete the scheme with respect to provincial institutions.

Clauses 23 and 24 agreed to.

Clauses 25 to 35 inclusive agreed to.

On clause 36—*Employment of staff.*

The CHAIRMAN: An amendment is before you to add a new subclause (3). I will ask Mr. Chrétien to move and Mr. Mackasey formally to second the amendment so that it is before us.

Mr. CHRÉTIEN: I move that bill C-261, An Act to establish the Canada Deposit Insurance Corporation, be amended by adding immediately after subclause (2) of clause 36 thereof the following:

Agreement for services.

"(3) In carrying out its functions under this Act, the Corporation may, with the approval of the Minister, make use of the personnel, facilities and services of the Department of Insurance and the Department of Finance to any extent not incompatible, in the opinion of the Minister, with the administration of those Departments."

Mr. MACKASEY: I second the motion.

The CHAIRMAN: Are there any comments in support of this amendment which you feel would be helpful?

Mr. HUMPHRYS: The purpose of this amendment, Mr. Chairman, is to clarify the power to use existing staff of the Department of Finance or the Department of Insurance in connection with the affairs of the corporation.

The CHAIRMAN: Is there anything further you wish to say, gentlemen, about this amendment.

Amendment agreed to.

Clause 36, as amended, agreed to.

On clause 37—*Application of other Acts*

Mr. FULTON: How does the Aeronautics Act creep in there?

Mr. J. W. RYAN (*Legislation Section, Department of Justice*): Under the Aeronautics Act regulations there is provision for compensation for certain public officials who are being carried by aircraft. It is necessary to make a reference there to bring these regulations into play.

Mr. MACDONALD (*Rosedale*): Is it not because it is a blue sky law?

The CHAIRMAN: I suppose it is also because you do not want to leave the affairs of any of these deposit taking institutions up in the air.

Clause 37 agreed to.

Clause 38 to 44 inclusive agreed to.

On Clause 45—*Coming into force.*

The CHAIRMAN: We will now have Mr. Chrétien move and Mr. Mackasey formally second the amendment which is before us.

Mr. CHRÉTIEN: I move that Bill-261, An Act to establish the Canada Deposit Insurance Corporation, be amended by striking out clause 45 thereof.

Mr. MACKASEY: I second the motion.

The CHAIRMAN: Do you wish to make any explanatory comments on this.

Mr. HUMPHRYS: The purpose was to enable the plan to come into force quickly. If this is struck out the act will come into force as soon as it receives royal assent, and then the provision affecting insurance of federal institutions will come into effect on proclamation as soon as the corporation can be organized.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, if a provincial institution comes under this act, operates under it and then withdraws how is the public going to know?

Mr. HUMPHRYS: The act requires the institution to notify all its depositors. If it does not do so then the act empowers the corporation itself to publish such public notice as it sees fit to draw attention to the matter.

The CHAIRMAN: Are you in a position to publish a notice in any event, or must you wait until the depositors are informed? I know it is there; I just want to make it clear that it is not necessary to wait until these institutions have informed their depositors.

Mr. HUMPHRYS: It is not necessary to wait.

Mr. FULTON: Do I understand, then, that federally incorporated institutions will be covered on a date to be determined by the Governor in Council, and provincial institutions that apply in the proper manner and become members will be covered as soon as their applications are accepted? There is no further proclamation necessary there? It is your intention to cover them as soon as they apply, leaving the inspection process, by necessity, to be carried out later. Is that correct?

Mr. HUMPHRYS: If the province concerned accepts the proposal that the Minister made in that connection, the corporation would cover the provincial institution as soon as it applied. But if the province does not want to follow that course, then it would be covered as soon as the corporation has approved the application and issued a policy or document evidencing the coverage.

Mr. DAVIS: I think I heard Mr. Humphrys say that this act would come into effect just as soon as the corporation could be organized. Could we have some idea when it might be possible to have it organized?

Mr. HUMPHRYS: As I mentioned last night, we hesitate to give a date. I think that everyone intends to push on with the organization as quickly as possible. It should be within a matter of weeks, anyway.

The CHAIRMAN: Is there any further discussion, gentlemen, on this aspect. If not, I will ask if the title shall carry.

Title agreed to.

For greater certainty, Mr. More, I will assume from the tenor of discussion that it was the unanimous view of the Committee that the amendment to clause 45 be struck out.

This bill, as amended, is carried. I will ask the Clerk of the Committee to prepare a report as quickly as possible. I presume that it will be available for Monday's sitting? That being the case, if you wish to inform the House Leader that it will be formally before the house at the opening of business Monday, it will be up to him and yourself to see how you should proceed.

Thank you, gentlemen, for giving us the opportunity to assist in what we hope will strengthen the deposit taking institutions.

Before adjourning I think we should—

Mr. SHARP: I would like to say a word of appreciation to the Committee first of all for giving priority to the consideration of this bill and for the very thorough examination of its main features. I was very much impressed by the informed comments of the members of this Committee. It shows that you benefited from your long sojourn in the field of banking.

The CHAIRMAN: I might add, of course, that we probably benefited, as you suggested, from hearing the views of many people both from the academic sphere and the financial sphere in our general hearings on banking and perhaps we have been able to apply this information here.

I do want to take just a moment with respect to our procedure. I think it is intended that we revert to our consideration of the banking legislation and it was our idea that once we had finished hearing from the Minister of Finance we would begin our clause by clause discussion. Are we in agreement that we have completed our questioning of the Minister of Finance with respect to the other legislation as well?

Mr. THOMPSON: Mr. Chairman, I have one question. I visualize that this machinery will be put into action very quickly; much more quickly, probably, than some of the provinces will be dealing with it, although most of the legislatures are in session. I can visualise, therefore, that perhaps there will be a number of provincially chartered trust companies and finance companies who are going to be seeking information and wanting to come under this immediately. I do not know just how to pose this question, but—

Mr. SHARP: May I clarify this, Mr. Chairman. Legislative action on the part of the provincial legislatures to bring provincial companies under deposit insurance will not be required. All that is required is the permission of the government, so I do not anticipate any difficulties of that kind. If the province wants to go further and require all institutions accepting deposits in the province to be federally insured, that might require legislative action. But the scheme itself can come into effect very quickly and it can apply to any provincial institutions that

the province wants it to apply to without requiring any legislation, as far as I am aware.

Mr. THOMPSON: In the event that permission is not readily available to institutions which do wish to come under, is the only way they can do so by federal charter, brought about through an act of Parliament?

Mr. HUMPHRYS: If an institution seeks federal incorporation within this field it must now be by a special act of Parliament.

Mr. THOMPSON: It must be?

Mr. HUMPHRYS: Yes.

Mr. THOMPSON: Which means it is a year off. I hope that as this goes through the House, initiative will come on your part to inform the various provinces of your own intentions to speed matters up and facilitate, I believe—if I read public reaction correctly—the intense interest in it by many trust companies and finance companies across the country who are not federally chartered.

The CHAIRMAN: Gentlemen is there anything further on this? Reverting to our brief procedural discussion, it was my understanding the consensus of the Committee was that the Minister of Finance would be our last witness, following which we would begin our clause by clause discussion. I assume we feel we have completed our questioning of the minister with respect to the banking legislation.

Mr. FULTON: May I ask whether, as we go through it clause by clause, the Minister could be here? I think we have only had two sittings with the Minister here for general questioning. I know he has been very hard pressed, but it would be helpful if he could be here as we review it clause by clause, because there may be some amendments which raise matters of policy. Rather than comb through it now as you have a lot more questions, that might be the more convenient method.

Mr. SHARP: May I suggest to you, Mr. Chairman, that I would be very happy to appear as often as I can before this Committee, but perhaps the questions of policy arising in the clause by clause discussion might be set aside and considered, if possible, at a continuous session rather than requiring me to sit here while more routine matters are under discussion.

Mr. MACKASEY: You suggested certain proposed amendments the other evening. Will you be here when they are introduced?

Mr. SHARP: Yes, I could be.

The CHAIRMAN: I was going to suggest to the Committee that we invite the officials immediately concerned to be with us for questioning; Mr. Scott, for example, and Mr. Elderkin who still has the status as special consultant on these matters, and so on, and I think they would be available to us as we consider this bill in any event. Do you have a further comment on this aspect?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was just going to say that I hoped we would be able to comb out the sections on which we want the Minister's advice and as he suggests, we stand them until we accumulate several.

Mr. More (*Regina City*): Well, I think we all would agree with that, Mr. Cameron. That makes sense. I was just going to ask whether we have copies of all the proposed amendments the Minister has in mind?

The Chairman: So far we have only one; the others were stated by the minister in principle. I presume they are being prepared now.

Mr. Sharp: There will be amendments from Mr. Elderkin, or one of my other officials, to carry out the intent of the changes I suggested.

Mr. More (*Regina City*): Well, what I was getting at is whether it is going to be done in the same manner as amendments for this bill, where they were given to us en bloc. It might colour some of our thinking in regard to other clauses.

Mr. Sharp: Well I have already seen 51 changes, that are being proposed, according to Mr. Elderkin, and I believe that those are now available. With regard to the amendments that I have suggested, I gave one to the Committee which has been discussed at some length. Then there are amendments relating to two other matters, but they require consequential changes in a number of places.

Mr. More (*Regina City*): Well this is what I had in mind; could they be made available too? We might get into an argument about a clause when the amendment might clear the air; if we do not have it we are wasting time.

Mr. Sharp: I am told by Mr. Scott that they will be available on Monday.

Mr. More (*Regina City*): This would be the complete amendments that you now have in mind? You have no further considerations in view of the evidence given?

Mr. Sharp: I will not give a categorical answer to that question. There are one or two points upon which I still want to reserve my judgment. Thank you.

The Chairman: That brings me to the next point. Do we wish to begin our clause by clause discussion on Monday evening?

Mr. More (*Regina City*): No. I suggest we start on Tuesday.

The Chairman: Yes, I think that is sensible. That leads me to the final point I wish to raise with you and that is whether or not this consideration should be in camera. I had advanced informally to the Steering Committee, now that it is a definite motion, the thought that it could be open. I have looked into this matter since mentioning it, and I believe it is not obligatory—it is a matter of procedure for committees. Generally, I have found they sat in camera where they are actually writing a report which was a statement of opinion or fact; for example, the interim report of the Prices Committee and where they considered an actual bill. In some cases this consideration has been open; in some cases it has been closed to the public but a transcript of the discussions has been taken and published. I am not saying this is a precedent, but we have just considered an important piece of government legislation in open session here, and perhaps it has been useful for all concerned to see this discussion.

Mr. Thompson: There is no point why a clause by clause discussion should be in camera, is there? After all, the focus of attention has moved downstairs to Defence; it is no longer here.

The CHAIRMAN: I could be wrong in this, but it is my personal opinion that by having this discussion open to the press and the public it may have some positive limiting effect on discussion in the House. I am not saying definitely that it will, but it may help to air things in a way they might otherwise not be aired in the House. Perhaps I am wrong in this. I just advance this thought.

Mr. MORE (*Regina City*): Frankly, I cannot see any reason why it should not be open, and if we come to a position where we feel we are involved in something that might be—

The CHAIRMAN: We can move into closed executive session.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would think, Mr. Chairman, after the entertainment record we have set we shall find that we are actually sitting *in camera*.

The CHAIRMAN: We will adjourn until Tuesday at 11 o'clock.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 47

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TUESDAY, FEBRUARY 14, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Mr. C. F. Elderkin, Special Adviser, Department of Finance; and
Dr. P. M. Ollivier, Parliamentary Counsel.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25716—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Basford,	Gilbert,	McLean (*Charlotte*),
Chrétien,	Irvine,	Monteith,
Clermont,	Lambert,	More (*Regina City*),
Coates,	Latulippe,	Munro,
Comtois,	Leboe,	Saltsman,
Davis,	Lind,	Valade,
Flemming,	Macdonald (*Rosedale*),	Wahn—(25).
Fulton,	Mackasey,	

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

MONDAY, February 13, 1967.

Ordered,—That the name of Mr. Saltsman be substituted for that of Mr. Cameron (*Nanaimo-Cowichan-The Islands*) on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25716—1½

MINUTES OF PROCEEDINGS

TUESDAY, February 14, 1967
(97)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:15 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Chrétien, Clermont, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Latulippe, Leboe, Macdonald (Rosedale), McLean (Charlotte), Monteith, Saltsman, Wahn—(15)

Also present: Mr. Addison.

In attendance: Mr. C. F. Elderkin, Special Adviser, Department of Finance; Dr. P. M. Ollivier, Parliamentary Counsel.

It was agreed to suspend the meeting called for 3:45 p.m. this day in order that the members might be present in the House for the debate on Bill C-261.

The Committee then proceeded to clause by clause study of Bill C-222, An Act respecting Banks and Banking.

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That the following clauses and schedules are passed *en bloc*:

Clauses: 3, 5, 7, 8, 9, 15, 16, 20, 21, 22, 23, 24, 27, 30, 32, 34, 37, 38, 40,, 41, 42, 43, 58, 59, 61, 62, 66, 67, 68, 70, 71, 73, 74, 78, 79, 80, 81, 94, 95, 98, 99, 100, 102, 104, 105, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 118, 119, 120, 121, 123, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 140, 141, 142, 143, 144, 146, 147, 148, 149, 152, 153, 154, 155, 156, 159, 160, 161.

Schedules: B, R and S.

On clause 1

Messrs. Elderkin and Ollivier were questioned.

At 12:00 noon the Vice-Chairman took the Chair and at 12:15 p.m. the Chairman resumed the Chair.

Clause 1 was allowed to stand.

Clause 2 was carried.

On clause 4

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 4 be amended by striking out the clause and substituting the following therefor:

"4. This Act applies to each bank named in Schedule A and does not apply to any other bank."

The clause was carried, as amended.

On clause 6

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 6 be amended by striking out the clause and substituting the following therefor:

"6. Subject to this Act,

(a) if Parliament sits on at least twenty days during the month of of June, 1977, the bank may carry on the business of banking until the first day of July, 1977, and no longer, and

(b) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

Clause 6 was carried, as amended.

On clause 10

Mr. Elderkin was questioned, and the clause was carried.

On clause 11

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 11 be amended by striking out lines 43 and 44 on page 7 and substituting therefor the following:

"scription, give his post office address, and this shall appear in the stock books in connec-"

The clause was carried, as amended.

On clause 12

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,

That clause 12 be amended

(1) by striking out line 22 on page 8 and substituting therefor the following: "poration as the place where the head office of the bank is to be situated, at such time and at"

(2) by striking out the word "and" in line 37 on page 8, and

(3) by striking out line 40 on page 8 and substituting therefor the following:

"meeting of the shareholders, and

(d) appoint two persons having the qualifications specified in subsection (1) of section 63, but not being members of the same firm, to be the auditors of the bank until the first annual general meeting of the shareholders,"

The clause was carried, as amended.

Clauses 13, 14 and 17 were carried.

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 18 be amended by striking out line 18 on page 14 and by substituting therefor the following:

"(a) he is a director of a bank to which the *Quebec Savings Banks Act* applies or of a company incorporated"

The clause was carried, as amended.
Clause 19, was carried.
Clause 25 was carried.

On clause 26

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 26, be amended by striking out lines 10 and 11 on page 17 and substituting therefor the following:

"meeting of directors, and a summary thereof for a period of twelve months ending not earlier than sixty days before the notice showing the total"

The clause was carried, as amended.
Clause 28 was carried.

On clause 29

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 29, be amended by striking out lines 13 and 14 on page 18 and substituting therefor the following:

"current loans to any person that are included in the latest return made by the bank to the Minister under section 103 and the aggregate amount of which exceeds one-tenth of one per cent of the"

The clause, as amended, was carried.
Clause 31 was carried.

On clause 33

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 33 be amended

(1) by striking out line 45 on page 20 and by substituting the following therefor:

"section 53 or subsection (2) of section 56 be accepted by the bank; and"; and

(2) by striking out line 51 on page 20 thereof and by substituting therefor the following:

"fix a date, not earlier than the thirtieth day after the day on"

The clause, as amended, was carried.

On clause 35

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 29, be amended by striking out lines 13 and 14 on page 21 and substituting therefor the following:

"give his post office address and this shall appear in the stock books in connection with"

The clause, as amended, was carried.
Clause 36 was carried.

At 12.57 p.m. the Committee adjourned until 8:00 p.m. this day, subject to cancellation if the Sub-Committee on Agenda and Procedure so directs.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by electronic Apparatus*)

TUESDAY, February 14, 1967.

The CHAIRMAN: Gentlemen, I think we are in a position to begin our meeting. As you know, we are now beginning our clause by clause consideration of the legislation that has been referred to us.

Before we began, Mr. Lambert, you were making a suggestion and perhaps you would like to state it at this time.

Mr LAMBERT: Yes, Mr. Chairman. In view of the fact that the government has scheduled for consideration in committee of the whole Bill C-261 and the fact that the members of this Committee have studied this bill, it is incumbent upon the majority of those members, at least, to be back in the House for the discussion, because the minutes of proceedings and evidence in connection with this bill will not be available generally for the members.

The CHAIRMAN: It will be available to the chief spokesmen of each party.

Mr. LAMBERT: If that is so, it is good to be able to see it just five minutes to the hour. In any event, my suggestion is that the Committee should not sit whilst we are considering that bill in the House.

The CHAIRMAN: Perhaps we could agree to suspend our meeting this afternoon when we see how we get along. I do not know how long the discussion in the House will take. Then we can decide amongst ourselves or in the steering committee, to see if we should sit this evening. I think your point is generally very well taken. I think that those members of the House who have the greatest background in this issue are on this Committee; however, we have to think about this other legislation, too. Perhaps the best way to start would be by agreeing not to meet this afternoon and we will decide this afternoon amongst ourselves whether we will meet this evening.

Mr. LAMBERT: I will also suggest to you, Mr. Chairman, that in view of the fact that the budget resolutions follow and it is generally the same people who are on the Finance Committee who are concerned with the financial provisions of the budget, that they too have some responsibility in the House.

The CHAIRMAN: This creates another problem, the time required to complete our clause by clause consideration of this bill. I am in the hands of the Committee ultimately as to when and to what length we sit, but if it is still the intention to prorogue the House on March 10th we have a heavy burden.

Mr. LAMBERT: Forget about that nonsense.

The CHAIRMAN: Mr. Lambert has suggested that we forget about it. I would like to, but I think it is up to you gentlemen to help work this out with the leaders of the various parties in the House.

Mr. MONTEITH: Mr. Chairman, we would be delighted to help out with the leadership of the House; it obviously needs a little. After having looked at that list of Committee meetings in the elevator this morning, and the various ones sitting morning, afternoon, and evening, it looks to me as though we are going to run out of business in the House because of lack of a quorum.

The CHAIRMAN: Perhaps we do the job better in committees.

Mr. MONTEITH: It will be either that or certain committees will not be able to meet.

The CHAIRMAN: Perhaps if it was left to those of us in this Committee, we might be able to work this out without undue difficulty.

(*Translation*)

Mr. CLERMONT: Mr. Chairman with regard to the point brought up by Mr. Lambert with regard to Bill C-261, I agree with his statement that the members of the committee should be in the House of Commons when Parliament considers second reading of this bill. I think we should be in the House of Commons.

(*English*)

The CHAIRMAN: Now that we have dealt with this procedural aspect, I suggest we proceed as follows. We will begin with Bill No. C-222, an act respecting banks and banking. Mr. Elderkin has prepared, shall I say, an up to date document setting forth the initially proposed amendments and, I believe, the subsequently proposed ones as well on the part of the government. Each of us has a copy of it. I will call each clause and those who wish to say something or ask questions will speak up, I am sure, as promptly as possible. To save time I would suggest that we consider these amendments, in turn, and as we reach them they will be moved formally by Mr. Clermont and seconded formally by Mr. McLean, at least for this morning's session, so we will not have to take the time to seek movers and seconders. This is simply to put before us the amendments proposed by the government in this document.

Mr. MONTEITH: Mr. Chairman, you had previously, I think, suggested, or it had been agreed upon, that we might make up a list of those clauses which we considered automatic and so on. We have done this and I think you or the Clerk passed out a list which apparently has been drawn up by Mr. Cameron.

The CHAIRMAN: Yes, this is the working document.

Mr. MONTEITH: Yes. I do not know if we should go through those first and clean them up. I thought that was your original suggestion.

The CHAIRMAN: It was, but of course there are some other extraneous matters that we have to deal with and we have not had the full opportunity we thought we would have to go into this. Does the Commitee wish to clear these up first or just note them and go through them, starting at clause 1 and continue on. What is the suggestion of the Committee? Do you have extra copies of your proposals?

Mr. MONTEITH: Yes, I can give you one list. Some of them are circled.

Mr. CLERMONT: Mr. Chairman, is this the list that was given to us a few weeks ago which represented the views of all the parties?

The CHAIRMAN: No. This was sort of a working document drafted by Mr. Cameron for the consideration of the members. What are the ones that are circled, Mr. Monteith?

Mr. MONTEITH: They are to be held out.

The CHAIRMAN: I think that perhaps you have come up with something that is very helpful. I would suggest that we circulate these other copies of Mr. Cameron's document and I will read out the ones that you suggest and if it is satisfactory to the Parliamentary Secretary and others present, perhaps I will take one motion to deal with all of them. There may be some problems because of the amendments.

Mr. LAMBERT: I do not know that any of them have amendments.

The CHAIRMAN: If we can use this procedure it will help.

Mr. ELDERKIN: I will underline the ones that have amendments.

The CHAIRMAN: If you will give me your working copy I will read out the ones that you suggest on behalf of your group are not contentious as a result of our discussions and consideration. Mr. Elderkin is looking at the ones for which there are proposed amendments. Does everybody have their copy?

Mr. LEBOE: Mr. Chairman, I just wanted to mention that yours truly has been out of commission for about two weeks with the flu and as a result I have not been able to consult with our group. However, I am quite willing at this particular point to go along with any arrangements between the New Democratic party and the Conservative party as to what they will let go en bloc. I am quite willing to go along with that because I do not think it would serve any useful purpose, at any rate at this late date, to get into any particular discussions on matters which the other opposition parties have pretty well agreed upon. From a practical point of view I think this would be the sensible approach.

The CHAIRMAN: Thank you, Mr. Leboe.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, are these the clauses that are agreed on by the N.D.P.?

The CHAIRMAN: Yes, the document you have is a working document, shall I say, prepared by Mr. Cameron in response to a suggestion from the steering committee that this would be a useful procedure. It has been circulated. Mr. Monteith, on behalf of his group has come back after analysing them and made suggestions as to those that would be satisfactory to his group, with certain exceptions. Will you all take a look at your copy while Mr. Elderkin is relating this document to the suggested amendments. Mr. Monteith and his group suggest that all the clauses and schedules listed in Mr. Cameron's working document are satisfactory with the exception of clause 1—and we will put a circle around that.

Mr. MCLEAN (*Charlotte*): Yes, just put a circle around it.

The CHAIRMAN: Yes, clause 1—

Mr. LAMBERT: Clause 6, Mr .Chairman, too, because there is an amendment.

The CHAIRMAN: We will get to that. I will deal with those afterwards. There is clause 39, clause 96, clause 137—Mr. Monteith, if I am skipping something will you interrupt me? You have also circled Mr. Monteith's schedules.

Mr. MONTEITH: All the schedules except B, R and S.

The CHAIRMAN: You have circled all the schedules except B, R and S, meaning that you are not in a position at this stage to say that there should not be further discussion.

Mr. LAMBERT: By way of explanation, all of those circled schedules have reference to either clause 82 or clause 88.

The CHAIRMAN: Yes.

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): Mr. Chairman, we have an amendment on clause 6.

The CHAIRMAN: The one you have the amendment on is clause 6. We will then also circle clause 6. I will circle it here for you on this document prepared by Mr. Lambert and Mr. Monteith. Just a minute while we make a note of these clauses.

Mr. ELDERKIN: Clauses 82, and 88.

The CHAIRMAN: Clauses 82 and 88. Are there any further comments on this working document with the suggestions put forth by Mr. Monteith? If not, I would propose to the Committee that we accept a motion at this time that all the clauses and schedules which have not been circled on this document headed "Clauses to be passed en bloc" be—

An hon. MEMBER: Read them.

The CHAIRMAN: Is it you suggestion to read all the clauses?

An hon. MEMBER: No, that is all right.

Mr. MONTEITH: I wonder, Mr. Chairman, if you should. I am only suggesting this so that everybody will be happy about it when we are finished. Perhaps you should just call the clause and give all the Committee members a chance to glance at the clause in the act.

The CHAIRMAN: This would only take a moment. There is no reason why we should not do that.

Mr. WAHN: I have had a question for some time and perhaps it was settled at a meeting when I was not able to be here. It is a question as to whether it is desirable that we should have a special act for the incorporation of a bank, which is rather difficult to get. Has that matter been discussed and settled.

The CHAIRMAN: I do not know if it has been settled; it has been discussed.

Mr. WAHN: If I wanted to raise this question, could I raise it under clause 8?

The CHAIRMAN: If you would like to reserve clause 8, we could do that, or you could discuss it under clause 1.

Mr. WAHN: In any event, I would like to have the opportunity of discussing it further.

The CHAIRMAN: Let us circle clause 8 then. Mr. Elderkin has pointed out to me that clause 8 is interrelated with other clauses. It is also related to the schedules. Is that your suggestion? Perhaps you would prefer to discuss this issue under clause 1.

Mr. WAHN: I will be perfectly satisfied with that.

The CHAIRMAN: Mr. Elderkin also has suggested that we circle clause 124 on the list.

Mr. ELDERKIN: It is a matter here in respect of the application in the case of insolvency, as to the standing of debentures. We just want to get it clear.

The CHAIRMAN: All right. Now I am going to read the clauses on this list—and for the sake of clarity I will refer to it as the list—which we have not circled, so we will make sure there is no misunderstanding as to what we are doing here. Clause 3; clause 5; clause 7; clause 8;—

Mr. LAMBERT: No; it is being held for Mr. Wahn.

The CHAIRMAN: I thought he had decided to reserve his comments for clause 1.

Mr. WAHN: As long as I can discuss it on clause 1, that will be all right.

The CHAIRMAN: That is all right, then. We will take the circle away from clause 8. Now clause 9; clause 15; clause 16;—if I am going too fast, let me know—clauses 20, 21, 22, 23, 24, 27, 30, 32, 34, 37, and 38. Clause 39 is circled—I guess we will call these blue-circled—and clauses 40, 41, 42, 43. We then move to clauses 58, 59, 61, 62, 66, 67, 68, 70, 71, 73, 74. We then move to clauses 78, 79, 80, 81. We then move on to clause 1 on page 77; clauses 95, 98, 99, 100, 102, 104 on page 84, 105, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 118—

An hon. MEMBER: Clause 14?

The CHAIRMAN: Yes, clause 114 on page 87; clause 116; clause 117 is not on the list. Then there are clauses 118, 119, 120, 121, 123, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 140, 141, 142, on page 96, 143, 144, 146, 147, 148, 149, 152, on page 99, 153, 154, 155, 156, 159, 160 and 161. Then the schedules: the first one is Schedule B on page 103; what about A, did you intend to—

Mr. ELDERKIN: Yes.

The CHAIRMAN: Then we move to Schedule R on page 118 and Schedule S on page 120.

These are clauses and schedules which the various party groups have considered and on the basis of the evidence from witnesses and our previous discussion they have noted their willingness to have them passed under a single motion. That being the case I would ask Mr. Clermont to formally move and Mr. Chrétien to formally second a motion that the clauses and schedules which I have read out be adopted at this time.

Mr. CLERMONT: I move that the clauses and schedules you read out be adopted by this Committee in a single motion.

Mr. CHRÉTIEN: I second the motion.

Motion agreed to.

The CHAIRMAN: This was a very good piece of work, I am sure. I think some thanks are due to the members of the Committee who have spent some time outside the formal sessions reviewing the clauses and in this way have made it possible for us to proceed expeditiously with respect to those on which there was found to be no need for lengthy discussion. I would ask the Clerk to make sure

that the copies of these lists in question are duplicated as soon as possible so that we will have them before us as we move on to the rest of the clauses.

We have with us as I have already mentioned, Mr. Elderkin. We also have with us Dr. Ollivier. It would be quite in order for Mr. Elderkin or Dr. Ollivier to interject with any necessary information with respect to the amendments.

The CHAIRMAN: Perhaps we can have an initial round of discussion on clause 1 and then stand it. Just to meet the formalities, shall clause 1 carry? Has anyone anything to say at this point, subject to this being stood for a further round of discussion at the end of our consideration of the remaining clauses?

Mr. LEBOE: Could we hear from Mr. Elderkin now?

The CHAIRMAN: What I intended to point out was that Mr. Elderkin would be available to us to provide any additional information that we needed about the clauses on the amendment which are under consideration.

Mr. Wahn, did you want to comment at this time about the procedure of incorporation.

Mr. WAHN: Yes, Mr. Chairman. I am concerned about the method of incorporation provided for in this bill. I gather that before a chartered bank can be incorporated a special act must be obtained. As we all know, these must be passed in private members hour. The procedure in private members hour has not worked out very satisfactorily and it has become extremely difficult to get even the most meritorious bills through private members hour expeditiously sometimes. I think all the witnesses who have appeared before us have indicated that it would be desirable to get more competition into the banking system, and to do that we need more chartered banks. It seems to me that the present system of incorporation presents people who are interested in forming banks with unnecessary obstacles.

I was not here, unfortunately, when the minister explained why the provision in the earlier bill which permitted incorporation of the letters patent had been deleted and why we reverted to this system. No doubt, it was because the government felt that it would be desirable to maintain some parliamentary control over the issue of charters. I do think that we must get away from the system of incorporating by special acts of parliament passed through private members hour. This just does not work. If if it is felt that some parliamentary control is necessary, perhaps provision could be made for incorporation by letters patent upon their being deposited with the Department of the Secretary of State, and the company's branch with the approval of a parliamentary committee, a House of Commons committee or a Senate committee, or both. I think we should avoid forcing people who wish to incorporate new chartered banks to go to the expense and the time that is involved in getting a private bill through parliament. I personally, cannot understand why it is at all necessary to have a special act. Why could it not be done by letters patent provided the Inspector General is satisfied with the financial arrangements, provided that no licence to commence business is issued until the inspector General is completely satisfied, and if money received from the sale of shares before the commencement of business is required to be deposited. I find it very difficult to understand what is the purpose for making incorporation of chartered banks so difficult. The fact is that at the present time we have about seven or eight chartered banks,

probably fewer chartered banks than we had about twenty-five or thirty-five years ago, and in these circumstances it is very difficult to get active competition.

The CHAIRMAN: Mr. Lambert, you wanted to comment on this issue raised by Mr. Wahn.

Mr. LAMBERT: Yes, Mr. Chairman, I do not think that the answer is necessarily a black or white type of answer. I personally welcome the decision of the government to revert back to the original formula. I certainly did not find the formula in Bill C102 at all acceptable because it seemed to me it had built-in dangers with regard to patronage and, regardless of whether the mechanics of the Inspector General's office and other requirements might be met, I believe that the experience recently, in dealing with the Bank of British Columbia and, in essence, the Bank of Western Canada, has been salutory in so far as the control or the examination by parliament is concerned. Now Mr. Wahn mentioned that it could be issued by letters patent, on the recommendation of a committee of the House, if they were deposited with the Secretary of State's office or with the Registrar of companies. I would point out that a committee of the House could not consider an application of a bill without having it referred to it by parliament and the matter would somehow have to get before the House of Commons. The whole matter of the referral to the committee in itself would present the same procedural difficulties against which Mr. Wahn has protested.

I agree; I do not think that a bill incorporating a bank or incorporating a number of insurance companies or some of the other proposals that are coming before parliament should be limited to the vagaries of a private members hour, especially near the end of the session. This is becoming a nonsense and I think that parliament must not only do justice by the proposals that are put before it but must appear to do justice. Frankly, during the last several months of this session there has been a denial of justice to a lot of applicants who are serious bonafide people, and immeasurable, irreparable damage may be done to them.

However, in the case of these banks I still do feel that parliament must have a look at it, and I think that if we put the appropriate value on the incorporation of a bank of this nature that the government could set aside one or two or three days of government time to handle it.

Mr. LAFLAMME: Do you mean to change the rules of parliament?

Mr. LAMBERT: No—well, it would be to the extent that instead of having to go through the mechanics of being heard during the private members hour that the government could transfer it to another day which it has set aside for this purpose. We have done this. We have set aside a day to consider private members' motions for the abolition of capital punishment. I think that this could be done and then we could have a much better discussion on it under these circumstances.

Mr. LEBOE: I was going to say that this last suggestion of Mr. Lambert's makes a lot of sense to me. I have been very much concerned over the fact that so much manipulation can go on in connection with private members bills. They can be spoken to to the point where they are dropped to the bottom of the list, and if the list is long it virtually kills a particular bill that should have been handled and passed. It is our responsibility to see that they are handled and yet,

under the circumstances, if they are not transferred to a day set aside by the government, they are not going to be handled. I think this is a good suggestion on the part of Mr. Lambert.

The CHAIRMAN: Do you have a comment, Mr. Chretien? Mr. Laflamme, do you have a further comment?

Mr. LAFLAMME: Personally, I support the point of view that whenever a private organization asks to incorporate a banking system we should not allow the House of Commons to put this private bill at the bottom of the list just because it is talked out. I think this is a very foolish practice. It spoils the good intentions of anyone who wants to get government approval.

Mr. WAHN: Mr. Chairman, I would be perfectly satisfied as long as some procedure could be worked out whereby the incorporators could be sure that their applications for a charter would come up for a vote say, at the same session during which they applied for it. I am a bit puzzled as to how you are going to ensure that under our present procedures. It seems to me that we dealt with a rather similar difficulty on divorce bills by referring it to a committee in the Senate, and in this case I think perhaps the committees of the House would have a function to perform as well.

With reference to the difficulty that Mr. Lambert mentioned, about getting a banking incorporation bill referred to a committee, I am merely wondering, if the bank acts contained a specific provision in effect referring all future bank incorporations to the committee on finance, whether that would not be sufficient authorization for the committee on finance to proceed with it. I am sure that some procedural provision could be worked out.

Mr. CHRÉTIEN: Mr. Chairman, I think that during the last year it was much easier to send bills to the committee. We developed new mechanics last year and this is why we were able to deal expeditiously with the Bank of Western Canada and the B.C. bank.

The CHAIRMAN: It would appear from the views expressed that if there is any consensus it would be aimed at having this issue dealt with through some reform in the rules of the House to enable parliamentary control to be kept over this type of thing.

May I make a suggestion. It may be that as we proceed through our clause by clause consideration of the bill the Committee may wish to make certain comments in the form of a textual report in addition to the report of the bill itself. Of course we cannot determine this, until we get almost to the end of our considerations. On the other hand, the Committee may feel that the statements made in discussion are, in effect, a sufficient signal to the government and to the rest of our colleagues for further action perhaps with the new rules committee, and so on. I suggest that when we come to the end of our consideration of this bill and the other bills we may want to decide whether we go into an in camera session to draft some textual comments in addition to the bill and the amendments itself.

Mr. LAMBERT: May I add something that might help Mr. Wahn in this regard. The point he was making about having it incorporated in the statute and referring such an application by statutory authority to the Committee is precisely what the government objected to under the transport bill. The opposition

wanted to have the report of the Transport Commission referred automatically, once a year to the Standing Committee on Transport; this was rejected by the government so I doubt if they would accept that principle. A way out, of course, which would eliminate a lot of the blockages, would be to move to change our rules so that the bill on first reading and printing is referred to the appropriate legislative committee.

The CHAIRMAN: Automatically.

Mr. LAMBERT: Automatically. That is within the rules. But to do away with this acceptance in principle at the beginning, the Committee then is seized with it, has its hearings, makes its recommendations, then there is a debate on the report and an acceptance in principle of the bill there.

Mr. WAHN: Mr. Chairman, would I be correct in stating that there is a consensus among the members that it is essential that we have some improvement. We do not quite know what form the improvement should take.

The CHAIRMAN: To take it a step further I think it is the consensus that this should be done through some amendment of the rules of the House. That is why I am saying that it may be that points of this nature, which we do not feel should be necessarily added into this bill in the form of amendments, could be covered by a textual comment in the report. Therefore I suggest that we make a note of these and, as we come down the home stretch of our consideration of these bills, then we may go into an in camera session and perhaps draft some comments, if at that point we feel it is desirable to do so. We may not feel it desirable; we may feel that our discussion in open session is, shall I say, a signal or a hint to either the government or our colleagues in the House as to how this matter should be dealt with. However, we may want to make a textual comment as well. Perhaps you might, for example, wish to consult with Mr. Lambert, and try and draw up some draft rules and procedures which we may recommend. This may be treading into dangerous waters here but I leave this thought for you.

Mr. LEBOE: Mr. Chairman, I do think that the time has come, in respect of a number of these questions, that provision must be made for the House to come to a decision on them; that they are not just left in abeyance by a juggling of the situation that exists in the rules today. I think that the time has come when something must be done so that the House can arrive at a decision. I think it is wrong that there can be a situation where the House is denied the right to make a decision by the failure of the rules to met the situation.

The CHAIRMAN: I think we have had an opportunity to review the points raised by Mr. Wahn. I will ask Mr. Wahn to keep in mind my comments on how we might carry this thought beyond the confines of this Committee.

Mr. LAMBERT: I would like to raise another point under clause 1. During a number of the hearings I indicated that I would be bringing forward an amendment to the act to define the business of banking. However, I have looked at this question very carefully, not because of the complexity of the definition of banking, because I think this is possible, but because this would result in a complete recasting of the act. There are many provisions with regard to supervision, status and conditions applicable to the chartered banks, as we know them—the chartered commercial banks—which do not apply in any way to the

near-banks. If we were to make a definition of banking it would require that the act be compartmentalized—to use a terrible term, one part applicable to the commercial banks, as we know them, and another part to the near-banks or anyone engaging in banking practices. I am sorry that the government did not see fit to do this. I think it would have been possible because we now see that we are going to do it in another way, at some future date, perhaps under three or four acts. We are going to do it under the Bank Act for the chartered banks; we are going to do it for deposit insurance under the Deposit Insurance Act. Then the minister the other day, in discussion on Bill 261, indicated it was the thinking of the government that they would like to have an act dealing with the inspection and control of near-banks to bring the whole of the banks and quasi banks under the one jurisdiction. I would have thought that it would have been better to have it all within one act but compartmentalized. It is for that reason that I am not going to advance my definition of the business of banking. I think in this day and age such a definition is perfectly feasible. I have had considerable research done in this regard. I think that there are many court decisions that go up as high as the Privy Council which do define the business of banking. I am sorry that on the basis of the recommendations of the Porter Commission the government has not seen fit to draft a new Bank Act which would apply to all banks and quasi banks and that we have to resort to interim legislation by the provinces to deal with the situation that we are going to get as a result of differing standards. If one province asserts the right and is able to do it, then all the other provinces have the right to do the same thing. I would also have thought that it would have kept the provinces out of the business of banking where they have no business whatsoever.

The CHAIRMAN: I recognize Mr. Leboe, followed by Mr. Macdonald.

Mr. LEBOE: One thing bothers me in connection with our procedure in the house dealing with the Bank Act. I think that the 10 year review has been all right in the past, but I certainly feel that at the rate changes are being made in the world today and in every phase of our lives, that a 10 year revision period is too long—and this I think has a direct bearing on what Mr. Lambert has just said. If we had the revision at five year intervals we could skip the old one if the House of Commons said there was no reason for dealing with it specifically. It seems to me that a decennial review of the Bank Act is too long because, the way the situation is, we cannot really look that far ahead; there are too many influences from outside and within our own country. I think we should take a good look at making some provision in the statutes whereby the Bank Act will be automatically reviewed in, say, five years instead of 10 years so that we will be more up to date with the Bank Act. Since it is not a comprehensive act to cover all financial institutions, as some of us think it should be, I think some consideration should be given, when we come to the appropriate place in the act, to get this cut down to five years.

The CHAIRMAN: Mr. Macdonald is next, followed by Mr. Monteith.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I would just say that I disagree with the opinion expressed by Mr. Lambert that the courts have sufficiently defined, in a comprehensive way, what the business of banking is. There have been, of course, individual decisions on certain aspects of the business of banking, but there has never, anywhere, been a comprehensive decision in this

regard. As to his remarks about whether it should be put in compartments in one act, or put in several different statutes, I do not think there is a great issue of principle involved. What you are doing is really applying the statutory structure to the commercial structure that exists. It seems to me that since you have had the banks and the business of banking built under one statute, and acceptance companies and other companies built under others, that there is nothing in it one way or the other.

Mr. MONTEITH: I can appreciate Mr. Leboe's thinking on this matter of review more often than every 10 years. At the same time, Mr. Chairman, I am inclined to think that we are facing rather an exceptional situation today. It is 13 years, not 10 years since a revision. In addition we are facing today a situation in the financial markets which could arise, I suppose, some other time, but I would be inclined to think that the banks are entitled to a firm undertaking as to the period of time that they are going to be in business.

I do not know whether the government can always open up an an act if they wish. For arguments sake, if a situation like that which has arisen in the last couple of years were to arise sometime in the future and demand review, I do not know whether it could be made or not; but I think the government could ask for it. Considering that the banks are entitled to some continuity in looking into the future and so on, I think I would be inclined to leave it at 10 years. I appreciate Mr. Leboe's thoughts but I still think I would leave it at 10 years.

Mr. LEBOE: In connection with that, Mr. Chairman, I think that history has some value here. Surely the banking institutions are not alarmed at the fact that their charters may have to come up for review in five years instead of ten. Surely, if they are afraid of being put out of business in five years, they are going to be afraid of being put out of business in 10 years. It just does not make sense to suggest that the banking fraternity would be alarmed at the fact that their charters were going to come under review in five years. History has some value here. If, for instance, the Bank Act can be opened up and their charters reviewed by some action of government at a moment's notice, surely it is much more difficult for the banking institutions if this takes place than if it is set out in the statutes that there will be a review within a five year period.

It seems to me that we are protecting the banks by letting them know ahead of time exactly what the situation is, rather than putting them on the spot where something might come up where the government takes immediate action because of an emergency. Now we have gone 13 years without a revision, as Mr. Lambert has pointed out, but if we had a review at five year intervals and there was a delay then it maybe would only run to eight years.

The VICE CHAIRMAN: I may be wrong, Mr. Leboe, but I am under the impression that the banking association itself recommended that the revision remain at 10 years.

Mr. MONTEITH: It is not also true, Mr. Chairman, that every time we do review the Bank Act this causes a great deal of extra work, I think even some unsettlement, some uncertainty within the banking structure itself? Unless it seemed absolutely necessary, I cannot see why we should be obligated to consider the bank Act more often than every 10 years.

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, I am in full agreement with what Mr. Leboe said regarding the review of the Bank Act every five years. If there is anything in the Bank Act which does not suit the banks, it seems it would be in their interest to have shorter periods for this review. From the point of view of the people, or the government, if they want improvements in the Bank Act, ten years is a long time to wait. They could not even say a word in between these times with regard to the economic position of their county. If we could make this review every five years, this would be reasonable and acceptable, to the bank, to the Committee as well as to the government. The people would be in favour of a five-year review instead of a decennial review. Many factors should be considered. Banks have brought about many changes in the Act. If this Bank Act were reviewed every five years, the banks would not suffer so much from situations which they cannot change until the ten years are up. But if this Act could bring forward this review of the banks, it seems to me it would be in the interest of the people and also in the interest of the banks. All parties could bring forward ideas, and views. The people have something to say. We know that in some countries, many countries, they review this act every year. I do not think it is too much to ask for a review every five years when one compares our situation to that in other countries outside of Canada. The Bank Act is reviewed much oftener. Abroad, the Bank Act is revised every year, amendments are being brought in every year. But this is complicated and revision would be impossible as a yearly task. I think we should have this review once every five years. This would be in the interest of all parties, the people, the government and the banks. That is an observation. I am in full agreement with Mr. Leboe's suggestion.

The CHAIRMAN: Thank you, Mr. Latulippe.

(*English*)

I have Mr. McLean, followed by Mr. Saltsman, but I believe Mr. Elderkin has some information to give us that may be useful at this stage.

Mr. ELDERKIN: I was only going to say, Mr. Chairman, that parliament can always open the act at any time that they wish. The fact that the act mentioned five years or 10 years would be no guarantee that parliament would not do so in an interim period. The fact that you are mentioning five or 10 years does not give any guarantee to the banks that the act will not be opened in the interim period.

Mr. WAHN: Mr. Chairman, has the act, in fact, ever been opened up within the decennial period.

Mr. ELDERKIN: Not for a great many years, but it has in the past.

The CHAIRMAN: This has happened?

Mr. ELDERKIN: Yes.

The CHAIRMAN: Dr. McLean?

Mr. MCLEAN (*Charlotte*): I certainly would oppose the shorter period just because of the fact that we have been two or three years looking over the act, and I think that the banks should have at least 10 years to get straightened out and to get going. If it is set for every five years and we are going to take three

years to get straightened out again, I do not see much sense to it; I think a longer time is needed.

The CHAIRMAN: Mr. Saltsman?

Mr. SALTSMAN: Mr. Elderkin, someone anticipated a question that I was going to ask. Would you just elaborate a little further on your comments as to the actual mechanics that are available to parliament for an examination of the act before the expiry date.

Mr. ELDERKIN: Well, parliament could bring in an amendment to section 6, which is the term under which they have power to carry on business.

The CHAIRMAN: But without dealing with anything that specific, if, for example, the government wished to propose to parliament, say, a definition of banking, or a code of conduct covering near-banks, they would not have to wait 10 years.

Mr. ELDERKIN: No. I cannot recall the exact circumstances, but in 1914 there was an amendment put in because of the war situation.

Mr. MONTEITH: Am I correct, Mr. Chairman, to say that I seem to recall the Minister saying that he wanted a study made of the operation of agencies and so on, and that he would bring in a separate act at that time?

Mr. ELDERKIN: That is correct, Mr. Monteith.

The CHAIRMAN: Separate legislation.

Mr. MONTEITH: Separate legislation which would certainly be before the next revision of the Bank Act.

The CHAIRMAN: I presume that does not rule out adding a section to this Bank Act as the medium of doing it.

Mr. ELDERKIN: No. If it was considered, Mr. Chairman, that the provision regarding agencies should be by way of an amendment to the Bank Act, this could quite easily be done.

Mr. WAHN: Rather than a change in the decennial period, would it not be possible for us to make it clear in our report that there is nothing which prevents a revision of any section in the Bank Act before the expiration of the 10 year period? So if we do decide to do that at any time, there can be no argument made on behalf of any of the chartered banks that we are doing something which is retroactive or which is contrary to a basic understanding.

Mr. ELDERKIN: I am sure, Mr. Wahn, that there is no doubt in their minds about this.

The CHAIRMAN: Perhaps we should see if Mr. Saltsman is finished.

Mr. SALTSMAN: I think that Mr. Wahn's suggestion is a rather good one, since we have had some evidence before this Committee that there has been doubt in some people's minds as to what is going on in banking in this country, and that such a statement might be made along with this bill when it is returned so that this would be clearly understood and that it be on the record.

The CHAIRMAN: Do you have a supplementary question, Mr. Laflamme?

Mr. LAFLAMME: With regard to the agencies, if I recall correctly, the Minister of Finance stated that this could be done by particular legislation, by a different bill, rather than by amending the Bank Act.

Mr. ELDERKIN: He just said "by separate legislation". Now the legislation might mean an addition to the Bank Act.

Mr. LAFLAMME: Yes.

Mr. ELDERKIN: Or, it might mean a completely different—

Mr. LAFLAMME: Bill?

Mr. ELDERKIN: That is right.

(*Translation*)

The CHAIRMAN: Mr. Clermont?

Mr. CLERMONT: Could Dr. Ollivier give us his opinion, with regard to Parliament's powers about this ten year waiting period. Parliament need not wait ten years. Even if the Committee made no suggestion, does Parliament not have this right?

Dr. OLLIVIER: I think so, indeed. Parliament can legislate when it wants to. It is not tied by previous legislation, it cannot bind our future Parliament either. So, there is no difficulty involved; anytime Parliament wants to legislate on the Bank Act, next year, for instance, if it wants to, it can make another law.

Mr. CLERMONT: Thank you, doctor.

(*English*)

Mr. LEBOE: Mr. Chairman, I would like to make one point here. I do not want my suggestion to be construed as interference in any way with the operations of the banks; on the contrary, I do feel, however, that we are putting it in a one-sided position. We are putting the whole review in hands of the government whether or not within that 10 years we come before parliament with any changes.

On the other hand, if the banks knew that within five years it would come under review they would have some hope—if there were changes that they felt were very very necessary—of meeting that deadline within the five-year period. I do not want anything I have said to be construed as being aimed in any way at curtailing the action of the banks, or as interfering with the banking business in any way, shape, or form. This is not true.

For instance, for a number of years now I think it would have been desirable, from the banking fraternity's point of view, to have been able to take security on mortgages, which we have incorporated in this bill. It is long overdue. The banks should have been in this business before.

I could speak for half an hour on this, but I am not going to. There are a great many ramifications in connection with this very thing. The banks actually have been denied this opportunity and this opening because of this 10-year sacred cycle that we have been following. I call it a sacred cycle because it is felt, apparently, that this is how to handle it.

I agree with the suggestion that we should put something in our report to the effect that we should closely examine the idea of opening it up before the 10

year period comes up so that we would be in a position to have a look at it in case it becomes necessary to change something.

Mr. MONTEITH: I appreciate Mr. Leboe's viewpoint, but I do not think the banks have been hindered at all in putting forward their views on mortgages in the past. In all government work influences are brought to bear and information comes to their attention, and I am sure that the banks have in the past approached the Minister of Finance with these thoughts. I am certainly not speaking for him. I am speaking as an ex-minister. I know that pressures, or representations, are made along certain lines, and at the appropriate moment probably some action is taken. Now, I am only guessing in this case that the Minister of Finance thought that the appropriate moment was when the Bank Act was to be revised.

Mr. LEBOE: This is exactly the point. I think we have made a sacred position out of this decennial change. As pointed out by Mr. Lambert we have gone for 13 years now before we have really got to the point of making the change. I think it has been to the detriment of the banking institutions of this country. I was a little alarmed, although not too much, by the statement made by Mr. Elderkin when he suggested that he was not really afraid of—as I think he said—the near-banks' situation within the next 10 years. Do I recall your remarks correctly?

An hon. MEMBER: It was Mr. Rasminsky.

Mr. LEBOE: Oh, perhaps it was Mr. Rasminsky; I am sorry.

This indicated to me that there was at the back of his mind, a reservation about what time might do within the next 10 years in connection with the banking system.

I am quite content, Mr. Chairman, to let it go at this. I have said my piece.

The CHAIRMAN: Are there any further comments on this issue?

If not, I might mention that this also might be something to consider for the textual portion of our report. It may well be that, with the development of the system of active legislative committees, the concept of making changes as they may be deemed desirable, as distinct from a complete decennial revision, could become easier of acceptance by the public, the government and the crown as time moves on.

Are there further comments on clause 1?

Mr. MONTEITH: I would ask that it stand.

Mr. CHAIRMAN: It is asked by Mr. Monteith that clause 1 be stood. I think this is the basis at the outset of our discussion of clause 1.

On clause 2—*Definitions. "Agricultural equipment."*

(*Translation*)

Mr. CLERMONT: Just a translation, I realize; but the English bill speaks of "cattle" and in French they say the word "*bovins*".

The CHAIRMAN: What Clause?

Mr. CLERMONT: Two, paragraph two.

The CHAIRMAN: Paragraph two. What date?

(*English*)

Mr. CLERMONT: In the English bill it says "cattle", but in French we read it as "bovines".

(*Translation*)

It is not quite the same thing, I think. In the dictionary I consulted before leaving, it does not translate "cattle" the word "*bovin*".

The CHAIRMAN: The French is here with Dr. Ollivier.

Dr. OLLIVIER: I will might perhaps refer this to the translators, we will bring it to their attention. If there is an error in translation, they will correct it, they will make the correction without bringing in an amendment. I will draw their attention to it. I am not a translator.

The CHAIRMAN: Still, at the same time, you will have to draw the attention of the translators to this, so, they will make the necessary change.

Dr. OLLIVIER: This is right.

(*English*)

The CHAIRMAN: Mr. Flemming, were you attempting to catch my eye? We are on clause 2. This is one of the clauses not covered in the blanket motion.

Mr. MONTEITH: I think, originally, it was left out by Mr. Cameron. I do not know whether or not he had anything specific in mind.

The CHAIRMAN: This is the definition clause. We could take a moment to make a further review of the clause, and if there is nothing which—

Mr. MONTEITH: There was some discussion under subclause (h), was there not? I do not recall what it was but—

The CHAIRMAN: Yes, there was some discussion of definition, and so on. I believe Mr. Ryan of the Department of Justice attended and clarified the point.

Mr. ELDERKIN: Dr. Ollivier did also.

The CHAIRMAN: Dr. Ollivier did, as well. Mr. Clermont?

Mr. CLERMONT: I would like to ask Dr. Ollivier if he would define what exactly a farm is and the purpose of it.

Dr. OLLIVIER: My conclusion was that it was better not to define it.

(*Translation*)

Mr. CLERMONT: Clause 2, paragraph III: "general manager". Is this a definition by the bank, suggested by the Inspector General?

(*English*)

The CHAIRMAN: That is a new clause.

Mr. ELDERKIN: It is a new clause, Mr. Clermont. The reason for it is that some banks have used the title "general manager" for various positions, but have only one chief general manager; and some banks still have only a general

manager, not a chief general manager. To cover the situation the draftsmen have put in this subclause (3) so that in cases where a bank has a chief general manager that is the person to whom the rest of the bill refers.

(*Translation*)

Mr. CLERMONT: The reason for my question is that if I remember well, in one of the briefs we had before us, there was objection brought in, because they claimed that it centered the administration or management in few hands only.

(*English*)

Mr. ELDERKIN: This is only a definition clause which refers to the title "general manager" in other parts of the bill.

(*Translation*)

Mr. CLERMONT: Thank you, Mr. Elderkin.

(*English*)

The CHAIRMAN: Are there any further questions or comments with regard to clause 2, the definition or interpretation section?

Clause 2 agreed to.

On clause 4—*Banks to which Act applies.*

Mr. ELDERKIN: Mr. Chrétien has an amendment, which is before you.

The CHAIRMAN: Yes. We all have the amendment. I am not going to read it. For the sake of formality we will take it that the amendment before us is moved by Mr. Chrétien and seconded by Mr. Clermont.

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out clause 4 on page 6 thereof and by substituting therefor the following:

Application of Act.

"4. This Act applies to each bank named in Schedule A and does not apply to any other bank."

Mr. CLERMONT: It was mine, Mr. Chairman, but I will not object.

The CHAIRMAN: Oh; well, we will do it the other way.

Mr. CLERMONT: Moved by Clermont and seconded by Mr. Chrétien.

The CHAIRMAN: All right; either way the supporters of the motion are people of substance, so there will be no problem in having the motion accepted.

Are there any questions or comments with regard to, firstly, the amendment proposed, in effect, by the government?

Mr. LEBOE: Perhaps we could have just a short explanation—

Mr. ELDERKIN: The reason for this is that actually we wish to straighten out paragraph (b) in the bill as it is now worded. In clause 100 it states that when banks are amalgamated schedule A is amended accordingly, so that it is not necessary to make any reference in clause 4 to an amalgamated bank. It is simply straightening out, in effect, what is now redundant in paragraph (b).

Mr. WAHN: I have a question on this.

The CHAIRMAN: Yes, Mr. Wahn.

Mr. WAHN: This clause seems to imply pretty clearly that there may be banks that are not subject to this act. Is that the intention?

Mr. ELDERKIN: There are banks that are not subject to this act, Mr. Wahn—the Quebec Savings Bank, the Industrial Development Bank, the Bank of Canada; there are various banks that are not subject to this act.

Mr. WAHN: I see, yes; thank you.

The CHAIRMAN: Are there any further questions or comments on either the amendment or the clause itself? If not, I will ask if the amendment carries?

Some hon. MEMBERS: Carried.

Amendment agreed to.

Clause 4, as amended, agreed to.

On clause 6—*Duration of authority to carry on business.*

Mr. ELDERKIN: We have an amendment on that, Mr. Chairman.

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out clause 6 on page 6 thereof and substituting therefor the following:

Duration of authority to carry on business.

"6. Subject to this Act,

(a) if Parliament sits on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the first day of July, 1977, and no longer, and

(b) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendment extends the expiry date from 1976 to 1977. As we are rapidly approaching June 1, 1967, and as the act will probably not be proclaimed much before that time, it was felt only right that the 10-year period should be extended to 1977.

The CHAIRMAN: I will not ask for a motion. Again, for the sake of convenience, we will assume that this is moved by Mr. Clermont and seconded by Mr. Chrétien. In fact I will not even repeat this as we go through these amendments.

Mr. LEBOE: From the discussion we have had, Mr. Chairman, I do not think there is any purpose in my moving an amendment.

The CHAIRMAN: That is the privilege of any member of the Committee, of course. Are there any questions or comments with respect to either the amendments or the clause itself?

Shall the amendment carry?

Amendment agreed to.

Clause 6, as amended, agreed to.

An hon. MEMBER: These, I think, were circled, were they not?

The CHAIRMAN: No; this was a suggestion to permit Mr. Wahn to discuss the technique of incorporating banks. We deal with it in clause 1 and came up with a way to handle it.

On Clause 10—*Provisional directors*

Are there any questions or comments or discussions with respect to clause 10?

I believe that this was omitted from the...

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, when one mentions, under (a), (b), (c), $3,000, is this the total subscribed?

(*English*)

Mr. ELDERKIN: This is the total that it is necessary for a provisional director to subscribe when the bank has an authorized capital of a million dollars or less.

(*Translation*)

Mr. CLERMONT: And I think when you asked the question some time ago, (a), (b), (c) is in the Bank Act for some years now?

(*English*)

Mr. ELDERKIN: This is a provision which was brought in, I think, in 1944, to take care of...

(*Translation*)

Mr. CLERMONT: Are you satisfied that in 1967—are you satisfied these amounts are sufficient?

(*English*)

Mr. ELDERKIN: Oh, yes, I would think so, Mr. Clermont; quite sufficient.

Mr. WAHN: As a matter of interest, Mr. Chairman, what is the reason for permitting one quarter of the provisional directors to have a lower qualification.

Mr. ELDERKIN: This was brought in, Mr. Wahn, in 1944, I think, or maybe earlier, when some members of the Committee raised the point that even the amounts mentioned here might be too high for certain types of people who otherwise would like to become directors of banks and whom the banks would like to have. If I remember rightly, one of the instances was the question of having farming representation on the board. Therefore, it was decided to give the banks a leeway, to take care of people who could otherwise not afford, perhaps, to become members of the board.

Mr. WAHN: Thank you.

Mr. MONTEITH: Is there any conflict at all between subclause (4) and any intent that we have been expressing around this table?

Mr. ELDERKIN: This was, as—

Mr. MONTEITH: Excuse me for interrupting, but have we not, to quite a degree, been considering Canadian residents. This says "Canadian citizens ordinarily resident in Canada". I am just wondering whether there is any—

Mr. ELDERKIN: Yes; this is a definite and planned distinction. Here it is quite possible, with the small number involved, to determine whether or not a person is a Canadian citizen. When we are talking about shareholders later on we talk about "Canadian residents", because with the many thousands of shareholders it would be almost impossible for a bank to check to see whether or not a person was a citizen.

There is no conflict, I think. There is a distinction, and there is meant to be a distinction.

Clause 10 agreed to.

On Clause 11—*Opening of stock books*

Mr. CLERMONT: I move:

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 43 and 44 on page 7 thereof and substituting therefor the following:
>
> "scription, give his post office address, and this shall appear in the stock books in connec—"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendment is to subsection (3) and is entirely editorial. It is just a matter of deleting the words "description, and these particulars" to conform with other places where the same phrase exists.

The CHAIRMAN: Are there any questions or comments on clause 11, or on the amendment.

If not, shall the amendment carry?

Amendment agreed to.

Clause 11 as amended agreed to.

On Clause 12—*First meeting of subscribers.*

Mr. ELDERKIN: We have an amendment here, Mr. Chairman.

The CHAIRMAN: We have two amendments.

Mr. CLERMONT: I move:

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 22 on page 8 thereof and substituting therefor the following:
>
> "poration as the place where the head office of the bank is to be situated, at such time and at"

Mr. CHRÉTIEN: And:

(a) by striking out the word "and" in line 37 on page 8 thereof, and

(b) by striking out line 40 on page 8 thereof and substituting therefor the following:

"meeting of the shareholders, and

(d) appoint two persons having the qualifications specified in subsection (1) of section 63, but not being members of the same firm, to be the auditors of the bank until the first annual general meeting of the shareholders,"

I second the motion.

Mr. ELDERKIN: We have an amendment to subclause (1) in the English text it is on line 22. This is again editorial to a great extent, to conform with lines 33 and 34 on page 6. It will read "the place where the head office of the bank is to be situated". It is purely editorial.

Amendment agreed to.

Mr. ELDERKIN: The next amendment, on subclause (3), is an addition to provide that the provisional directors may appoint two persons as auditors of the bank.

This was an omission which, I think, should have been corrected long ago. It did not occur to us because we did not have a situation arising. It meant that a special shareholders meeting would have had to be called to appoint the auditors; otherwise there would have been no auditors until the next annual meeting of the bank. This just gives the power to appoint them.

The CHAIRMAN: Are there any further questions or comments on the first amendment to subclause (3)

Mr. WAHN: Could Mr. Elderkin explain the procedure which is followed when subscriptions are taken? The promoters of the bank obtain subscriptions and they get the money for the shares. Are they required to deposit money anywhere with any public authority until such time as business commences?

Mr. ELDERKIN: They are required to deposit $250,000 with the Minister of Finance, which is held by him until such time as the certificate permitting them to do business is issued—by the Treasury Board now, later by the Governor in Council—at which time he releases the $250,000 to them.

If, as in the case of the Bank of Western Canada, there are special provisions regarding the issue of the certificate to do business, one of them may be a regulation or a provision about the handling of the rest of funds, as we did in that particular case.

Mr. WAHN: If they collected substantially more than $250,000 from subscribers—let us say they collected $3 million—and they only deposit $250,000 with you what protection is there?

Mr. ELDERKIN: They are not allowed to spend any of it at all. If you read on in those subclauses, you will see that they are not permitted to make any expenditure. For instance, if you look at subclause (4) on page 9 it says:

—no payments on account of...expenses shall be made out of moneys paid in by subscribers

Mr. WAHN: That nevertheless is under the complete control of the provisional directors? It is not deposited in any public funds?

Mr. ELDERKIN: No; not in any public fund. It is just that $250,000 comes into the hands of the Minister. They have to meet certain clerical expenses and

parliamentary expenses, and they are permitted to do so out of those subscribers' funds.

Mr. WAHN: You mean their fees for filing their special acts, and so on?

Mr. ELDERKIN: And, Mr. Wahn, perhaps I should explain that when they apply for their licence to start business they have to file a financial statement.

Mr. WAHN: Apart from the $250,000 which are deposited, there is really no protection to subscribers, though, except the reputation of the provisional directors.

Mr. ELDERKIN: No; there is also the question of violation of the act.

Mr. WAHN: Yes; but is there a prohibition against this...

Mr. ELDERKIN: And a penalty for violation.

Mr. WAHN: Yes; but there is no control over the money.

Mr. ELDERKIN: No; that is right.

Mr. WAHN: Do you think that is satisfactory?

Mr. ELDERKIN: It always has been in the past; we have never had any trouble whatsovever along that particular line.

What happens is that before a certificate of permission to do business is issued the bank is inspected by the Inspector General and if there has been anything not quite legal about their handling of the funds they will not get a certificate, of course.

Mr. WAHN: I can see that from there on they are protected; but the inspection does not become effective until the issue of certificate.

Mr. ELDERKIN: The inspection comes before the issue of the certificate, because the Treasury Board normally always has asked that the Inspector General recommend the certificate.

Mr. WAHN: For a period of time after the taking of subscriptions the money is completely under the control of the provisional directors, except for the $250,000 on deposit. They could, for example, abscond with it and there would be no way of preventing that.

Mr. ELDERKIN: That is right; but they must have some money at least to meet the expenses which are enumerated in the act, and which they are authorized to meet.

Mr. WAHN: The only question in my mind is whether it would not be preferable, until such time as the bank gets its operational certificate, for the entire amount to be deposited under the control of a public authority, with permission given to issue cheques for the payment of these expenses out of these funds. I cannot understand why this would not be a safer procedure than the one that has been adopted.

Mr. ELDERKIN: In the hands of the Minister of Finance these funds bear no interest, of course, whereas normally, as in the case of the last two corporations they are deposited at interest and earn money while they are waiting for the certificate to do business; and, as a matter of fact, still...

Mr. WAHN: I do not want to over-emphasize the point because I do not think there is any great danger, but there is a period of time there—and we are dealing now with a corporation which, for the purpose of collecting subscriptions, can call itself a bank—during which there is no public control over it until it really starts business. It seems to me, in theory at any rate, that the provisional directors could walk off with a very substantial portion of the funds entrusted to the bank. It would certainly violate the provision of the Bank Act, but that would be poor comfort for the subscribing shareholders.

Mr. ELDERKIN: I suppose they would be subject to criminal charges.

Mr. WAHN: Yes.

Mr. MACDONALD (*Rosedale*): In the same way, they could walk out with the funds at any time between inspections, could they not?

The CHAIRMAN: I presume that this problem might be justification for summoning the provisional directors before a parliamentary committee prior to a charter being granted so that an arm of parliament could look into their history and the prospects of their doing something that they should not.

Are there any further questions or comments on the amendment to clause 12(3).

Shall the amendment to clause 12(3) carry?

Amendment agreed to

Clause 12 as amended agreed to.

Clauses 13, 14 and 17 agreed to.

On Clause 18—*Management*

The CHAIRMAN: We have an amendment to subclause (6)

Mr. CLERMONT: I move

> That Bill C-222, An Act respecting Banks and Banking be amended by striking out line 18 on page 14 thereof and by substituting therefor the following:
>
> "(a) he is a director of a bank to which the *Quebec Savings Banks Act* applies or of a company incorporated

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendment to subclause (6), Mr. Chairman is simply to add the Quebec Savings Banks to the institutions of which a director of a bank may not also be a director after a period of time. These were omitted in the first drafting. As it is the intention that there shall be no interlocking directors in banks and deposit-taking institutions we have to add that the Quebec Savings Banks will be included, too. That is the only point.

Mr. SALTSMAN: May I have a word of explanation here on clause 18, Going down to line 25 and 26 of page 13? In the event that a bank runs into such difficulties that it may be necessary for the government to step in as a director, or as an intermediary, does this clause exclude that possibility?

Mr. ELDERKIN: What happens there Mr. Saltsman is that there are, in effect—we will come to it later, if you want to discuss it—the powers of a curator which the government can appoint. That appears in clause 125 and following

clauses. When a curator is appointed he, in effect, takes charge of the bank and the directors are subject to his authority.

Mr. SALTSMAN: Yes, but that is in the event of the government taking over, almost as would a trustee; is that correct?

Mr. ELDERKIN: That is right.

Mr. SALTSMAN: But if a bank is in trouble, short of, let us say, failure or extreme difficulty, where the government may feel it necessary to have a director on this bank before some crisis position is reached, would this type of clause exclude the government from taking this kind of action?

Mr. ELDERKIN: It would exclude the government from taking any action. It would not exclude the bank from electing, or appointing, a director nominated by the government, if he was a shareholder.

Mr. SALTSMAN: But he would have to be a shareholder in his personal right, though. He could not act as a trustee? This is what I am getting at.

Mr. ELDERKIN: No. It has never been felt necessary, Mr. Saltsman, that this should happen. I doubt that the government would want to do this unless there was a danger of insolvency, in which case they can.

Mr. LAFLAMME: Will it become possible through the application of deposit insurance?

Mr. ELDERKIN: Well, under the deposit insurance act they would have very much more power from that point of view, because they will have the power of actually acting before a bank becomes insolvent.

Mr. SALTSMAN: What situation do you envisage would necessitate a curator's stepping in? How bad would the situation have to become to warrant that action?

Mr. ELDERKIN: Well, if you will look at clause 125, that provides for when a bank suspends payments of liabilities.

Mr. SALTSMAN: Yes; but that practically amounts to failure of the bank, does it not? In other words, the bank has in effect failed to meet the requirements of its depositors?

Mr. ELDERKIN: That is correct.

Mr. SALTSMAN: I am trying to imagine a situation short of that—of sort of anticipating a situation rather than waiting for this kind of collapse to take place.

Mr. ELDERKIN: Well, as Mr. Laflamme has said, I think much of your concern here would be covered by the powers of the deposit insurance corporations act. The government has never placed itself in the position of stepping into a bank unless it was in fear of insolvency.

The CHAIRMAN: But now, with the new legislation, there is an additional degree of prior control and supervision, I gather?

Mr. ELDERKIN: That is correct.

Mr. SALTSMAN: Under the deposit insurance act they do not have the power actually to step in; they have powers to investigate and to report.

Mr. ELDERKIN: They have the power to withdraw the insurance, which would be just the same as putting them into bankruptcy.

Mr. SALTSMAN: But do they not need additional powers beyond that, to appoint a director, before a situation becomes too difficult?

Mr. ELDERKIN: Well, Mr. Saltsman, I think perhaps what you have in mind here is something that is presently the function of the Inspector General of Banks. One director would not have any effect whatsoever on a board. The Inspector General of Banks has very much more power than one director.

Mr. MACDONALD (*Rosedale*): That was going to be my question: How the powers of a single director in minority would compare to those of the Inspector General.

The CHAIRMAN: I gather, Mr. Elderkin, as has come out in our previous discussions, that not only do you require very regular reports from the institution that is covered by this act, but you have wide powers yourself to seek information, and to step in and obtain it yourself, and to advise and so on?

Mr. ELDERKIN: Actually, under the act I can take over all their books and records.

The CHAIRMAN: You would probably need some help in carrying them!

Mr. ELDERKIN: Perhaps I should say that I can take control of their records.

The CHAIRMAN: Is there anything further on the amendment?

Amendment agreed to.

Clause 18 as amended agreed to.

Clauses 19, 25 and 26 agreed to.

On Clause 26—*Record of attendance.*

The CHAIRMAN: There is an amendment.

Mr. CLERMONT: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 10 and 11 on page 17 thereof and substituting therefor the following:
>
> "meeting of directors, and a summary thereof for a period of twelve months ending not earlier than sixty days before the notice showing the total"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The way the clause is worded at the present time the summary has to be

> for the twelve months immediately preceding the notice—

—of the meetings. This is not practical. The amendment simply says

> for a period of twelve months ending not earlier than sixty days before the notice

—of meeting. I mean it might so happen that the meeting was practically the day before. This is just to give the banks a 60-day leeway.

Amendment agreed to.

Clause 26 as amended agreed to.

Clause 28 agreed to.

On Clause 29—*Report of directors.*

The CHAIRMAN: There is an amendment.

Mr. CLERMONT: I move

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 13 and 14 on page 18 thereof and substituting therefor the following:

"current loans to any person that are included in the latest return made by the bank to the Minister under section 103 and the aggregate amount of which exceeds one-tenth of one per cent of the"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: On lines 13 and 14 it refers to

current loans that are owing to the bank by any person—

We have been informed by counsel that this would mean any loan, whether written off or not and it may have been written off years ago—unless it was cancelled by legal action. Therefore, the amendment refers to

—current loans to any person that are included in the latest return made by the bank to the Minister under section 103—

In other words, it refers to the loans that are on the books of the bank.

The CHAIRMAN: Is there anything further on the amendment?

Amendment agreed to.

Clause 29 as amended agreed to.

Clause 31 agreed to

On clause 33—*Offer of shares of capital stock.*

The CHAIRMAN: There is an amendment here.

Mr. CLERMONT: I move

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out line 45 on page 20 thereof and by substituting therefor the following:
"section 53 or subsection (2) of section 56 to be accepted by the bank; and"; and

(b) by striking out line 51 on page 20 thereof and by substituting therefor the following:
"fix a date, not earlier than the thirtieth day after the day on"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: There are two amendments to clause 33 Mr. Chairman. In line 45 of the English text, after "section 53" we add "or subsection (2) of section 56". This is to provide for the fact that in subclause (2) of clause 56 as amended there are certain non-residents who cannot subscribe for shares; therefore, this is to negate any suggestion that they should not be offered to them.

The second amendment is to subclause (2) on the last line on page 20 of the English version, where it refers to the "ninetieth day." This has been changed to the "thirtieth day". I explained the reason for this at an earlier hearing. It provides for a shorter period for acceptance by shareholders.

The CHAIRMAN: Is there anything further on these two amendments?

Amendments agreed to.

Clause 33 as amended agreed to.

On clause 35—*Stock books.*

Mr. CLERMONT: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 40 and 41 on page 21 thereof and substituting therefor the following:
> "give his post office address and this shall appear in the stock books in connection with"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Again, this is an editorial amendment, Mr. Chairman, on line 40, taking out the words "occupation and these particulars". This is exactly the same as the amendment to 11(3). It conforms to the wording on clause 45(1).

The CHAIRMAN: Is there any question on the amendment?

Amendment agreed to

Clause 35 as amended agreed to.

Clause 36 agreed to.

On Clause 39—*Calls on shares.*

The CHAIRMAN: This has been circled.

As two of the spokesmen for the Conservative group have had to attend to other matters, and as it is almost 1 o'clock, perhaps it would be convenient to adjourn at this time so that they will be able to state their views on this clause later.

I suggest that we adjourn until 8 o'clock this evening, unless the Steering Committee decides otherwise.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 48

WEDNESDAY, FEBRUARY 15, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Mr. C. F. Elderkin, Special Adviser, Department of Finance; and Dr. P. M. Ollivier, Parliamentary Counsel.

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OTTAWA, 1967

25718—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,
Chrétien,
Clermont,
Coates,
Comtois,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Latulippe,
Leboe,
Lind,
Macdonald (*Rosedale*),
Mackasey,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Saltsman,
Tremblay,
Valade,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

TUESDAY, February 14, 1967.

Ordered,—That the names of Messrs. Addison and Tremblay be substituted for those of Messrs. Basford and Davis on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25718—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, February 15, 1967.
(98)

The Standing Committee on Finance, Trade and Economic Affairs met at 3.55 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Clermont, Comtois, Flemming, Gilbert, Gray, Laflamme, Lambert, Latulippe, Leboe, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Wahn, Tremblay—(14).

In attendance: Mr. C. F. Elderkin, Special Adviser, Department of Finance; Dr. P. M. Ollivier, Q.C., Parliamentary Counsel.

The Committee resumed consideration of Bill C-222, An Act respecting Banks and Banking.

Clause 39 was allowed to stand.

Clauses 44 to 50 inclusive were carried.

On clause 51

On motion of Mr. Clermont, seconded by Mr. Lind,

Resolved,—That clause 51 be amended by striking out line 15 on page 27 and substituting therefor the following:

"mission in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

The clause, as amended, was carried.

At 4.15 p.m. the Vice-Chairman, Mr. Laflamme, took the Chair.

On clause 52

On motion of Mr Clermont, seconded by Mr. Lind,

Resolved,—That clause 52 be amended

(a) by striking out line 32 on page 27 and substituting therefor the following:

"right, but does not include an official or corporation per-";

(b) by striking out the word "or" in line 51 on page 28 and by striking out paragraph (f) on page 29 and substituting therefor the following:

"(f) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty

in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1);

(g) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1); or

(h) both shareholders are associated within the meaning of paragraphs (a) to (g) with the same shareholder."; and

(c) by striking out line 41 on page 29 and substituting therefor the following:

"virtue of paragraph (h) of subsection (2) by".

The clause, as amended, was carried.

On clause 53

Mr. Gilbert, seconded by Mr. Leboe, moved that Clause 53 be amended by

(a) striking out paragraph (a) of subclause (3) of clause 53 thereof and substituting therefor the following:

"(a) Her Majesty in right of a province or an agent of Her Majesty in such right, or"; and

(b) striking out lines 9, 10 and 11 on page 31 thereof and substituting therefor the following:

"(a) by Her Majesty in right of a province or an agent of Her Majesty in such right or by the government of a".

Messrs. Elderkin and Ollivier were questioned.

After further discussion, and the question having been put, the amendment was negatived on the following division: Yeas, 1; Nays, 8.

On motion of Mr. Clermont, seconded by Mr. Lind,

Resolved,—That clause 53 be amended by striking out line 21 on page 30 and substituting therefor the following:

"of a share of the capital stock of the bank to any person, including, without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (a) of subsection (1) of section 52,"

The clause was carried, as amended.

On clause 54

On motion of Mr. Clermont, seconded by Mr. Lind,

Resolved,—That clause 54 be amended by striking out line 21 on page 33 and substituting therefor the following:

"(c) an official or corporation administering, managing or investing"

The clause was carried, as amended.

Clause 55 was carried.

On clause 56

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That clause 56 be amended by

(a) striking out lines 15 to 24 inclusive, on page 36 and by substituting therefor the following:

"(2) Where more than twenty-five per cent of the issued and outstanding shares of the capital stock of the bank were held on the 22nd day of September, 1964, in the name or right of or for the use or benefit of any one non-resident, the bank, so long as the total number of shares of the capital stock of the bank held by non-residents exceeds twenty-five per cent of the total number of issued and outstanding shares of the capital stock of the bank,

(a) shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made or recorded in a register of transfers of the bank; and

(b) shall not accept a subscription for a share of the capital stock of the bank by a non-resident;

but if at any time after the 22nd day of September, 1964, there is no one person in whose name or right or for whose use or benefit more than ten per cent of the issued and outstanding shares of the capital stock of the bank are held, this subsection ceases thereafter to have any force or effect."

(b) by striking out line 21 on page 38 and substituting therefor the following:

"(b) an official or corporation administering, managing or investing"

The clause was carried, as amended.

Clause 57 was carried.

At 4.45 p.m., at the request of the Vice-Chairman, Mr. Clermont took the Chair as Acting Chairman.

On clause 60

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 60 be amended by striking out paragraph (c) of subclause (2) and substituting therefor the following:

"(c) a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form specified in Schedule P and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

The clause was carried, as amended.

On clause 63

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 63 be amended by

(a) striking out subclause (12) and substituting therefor the following:

"(12) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be submitted by the directors under section 60."

(b) striking out lines 45 and 46 on page 43 and substituting therefor the following:

"end of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for losses for the year, and shall include such"

The clause was carried, as amended.

On clause 64

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*)

Resolved,—That clause 64 be amended by striking out subclauses (6) to (9) and substituting therefor the following:

"(6) The Inspector shall be paid a salary fixed by the Governor in Council on the recommendation of the Minister and shall be an officer of the Department of Finance, but the provisions of the *Public Service Employment Act* do not apply to him.

(7) The Inspector and any person temporarily performing the duties of the Inspector shall not borrow money from a bank unless he has first informed the Minister in writing of his intention to do so.

(8) Such other officers and employees as are necessary for the proper conduct of the duties of the Inspector shall be appointed in the manner authorized by law."

The clause, as amended, was carried.

Clause 65 was carried.

Clause 69 was carried.

On clause 72

Mr. Latulippe moved, seconded by Mr. Gilbert, that clause 72 be amended to provide that the reserves of the banks be increased from 8% to 10% a year until they reach 100 per cent, so that the banks will lend only when they are 100% covered.

The question having been put, the proposed amendment was negatived on the following division: Yeas, 1; Nays, 8.

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 72 be amended by

(a) striking out lines 11 and 12 on page 48 and substituting therefor the following:

"the average during any month than an";

(b) renumbering subclauses (3) to (6), inclusive, of clause 72 on pages 48 and 49 as subclauses (4) to (7), inclusive; and

(c) adding immediately after line 31 on page 48 the following:

"(3) Notwithstanding subsection (1), the cash reserve to be maintained by the bank pursuant to subsection (1) in any month following the twelfth month after the coming into force of this Act shall, if so required by the Bank of Canada, be not less on the average during each of the two separate periods comprised of the first fifteen days of that month and the remaining days of that month than the amount specified in subsection (1); and in the event of such a requirement, the Bank of Canada shall make its requirement apply generally to all banks, give written notice of its action specifying the months to which the requirement applies, publish such notice forthwith in the *Canada Gazette* and mail a copy of the notice to all banks not less than thirty days before the first day of the first of the months so specified, and may, at any time by advice notified in the same manner, reduce in number the months to which the requirement applies." and

(d) striking out lines 7 and 8 on page 49 and by substituting therefor the following:

"any month mentioned in subsection (1) or (4) or any period mentioned in subsection (3)"

Clause 72, as amended, was carried.

Clauses 75 and 76 were allowed to stand.

On clause 77

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 77 be amended by

(a) striking out the words and figures "in any financial year of the bank commencing after the 31st day of October, 1966" in lines 38 and 39 at page 55;

(b) striking out subclauses (5) and (6) at page 56 and substituting the following:

"(5) The bank shall not issue bank debentures dated more than sixty days before the date of the issue of the debentures; but this subsection does not apply to a debenture issued in exchange for or in replacement of one that has the same stated maturity and that is not then being redeemed or paid.

(6) The bank shall not issue bank debentures if, as a result of the issue, the aggregate principal amount of its bank debentures outstanding that have a stated maturity after the end of the financial year of the bank in which the issue is made, would exceed the lesser of

(a) an amount equal to one-half of the total of the paid-up capital stock and rest account of the bank at the time of the issue; or

(b) the amount obtained by multiplying the total of the paid-up capital stock and rest account of the bank at the time of the issue by the number of financial years of the bank completed after the 31st day of October, 1965, and dividing the product obtained by ten."

The clause, as amended, was carried.

Clauses 82 to 87 inclusive were carried.

Clauses 88 to 93 inclusive were allowed to stand.

Clause 96 was allowed to stand.

On clause 97

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 97 be amended by striking out line 24 on page 80 and substituting therefor the following:

"the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

The clause, as amended was carried.

On clause 101

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 101 be amended by striking out lines 43 to 45, inclusive, on page 82 and substituting therefor the following:

"resolution carried by not less than two-thirds of the votes cast by the shareholders present in person or represented by proxy at the meeting, the"

The clause, as amended, was carried.

Clauses 103, 106 and 117 were carried.

On clause 122

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 122 be amended by striking out lines 11 to 22, inclusive, on page 90 and substituting therefor the following:

"months.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be made in accordance with such Act.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank; but the call and any

further call thereafter is recoverable from him as if no forfeiture had taken place."

The clause was carried, as amended.

Clauses 124, 137 and 138 were allowed to stand.

Clause 139 was carried.

Clause 145 was allowed to stand.

On clause 150

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 150 be amended by striking out line 35 on page 98 and substituting therefor the following:

"otherwise authorized by an Act of the Parliament of Canada."

The clause was carried, as amended.

Clause 151 was allowed to stand.

On clause 157

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 157 be amended by striking out line 23 on page 101 and substituting therefor the following:

"against this Act; but this subsection does not apply where such use is required by law and is confined to a statement contained in a prospectus that a corporation is the holder of shares of the capital stock or evidences of indebtedness of a bank."

The clause was carried, as amended.

On clause 158

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 158 be amended by

(a) striking out line 15 on page 101 and substituting therefor the following:

"section 53 or subsection (2) of section 56 is guilty of an offence and liable on summary"; and

(b) striking out line 19 on page 101 and substituting therefor the following:

"violation of any provision of section 53 or subsection (2) of section 56 is guilty of an"

The clause was carried, as amended.

On clause 162

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 162 be amended by striking out the clause and substituting the following therefor:

"162. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

(2) Section 6 and this section shall come into force, and section 6 of the *Bank Act*, Chapter 48 of the Statutes of Canada, 1953-54, is repealed, on the day that this Act is assented to."

(3) Section 54 and subsection (6) of section 56 shall come into force three months after this Act comes into force."

The clause was carried, as amended.

On Schedule A

On motion of Mr. Comtois, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That Schedule A be amended by inserting the following at the end of the Schedule under the appropriate headings:

"Bank of Western Canada	Banque de l'Ouest Canadien	$ 25,000,000	$10	Winnipeg
Bank of British Columbia	Banque de Colombie-Britannique .	$100,000,000	$10	Vancouver"

The Schedule was carried, as amended.

At 5.45 p.m. the Committee adjourned until 11.00 a.m., Thursday, February 16, 1967.

Dorothy F. Ballantine,
Clerk of the Committee

EVIDENCE

Recorded by Electronic Apparatus

WEDNESDAY, February 15, 1967.

The CHAIRMAN: I think we are in a position to begin our meeting, gentlemen. When we recessed I think I had just called clause 39 and I believe this is one of the clauses which the conservative group had suggested we put a circle around and that is why I thought we should not proceed with it until they had a chance to express their views.

Mr. FLEMMING: Mr. Chairman, I believe it was Mr. Fulton—I speak subject to Mr. Lambert's correction—who raised the point. Would it be satisfactory to let it stand for a little later consideration?

The CHAIRMAN: Yes.

Mr. LAMBERT: Mr. Fulton will be back here tonight.

The CHAIRMAN: Let us have clause 39 stand.

Clause 39 stands.

Then we move on to clause 44.

On clause 44—*Shares transferable.*

Mr. LAMBERT: What concerns me is the effect of the limitations imposed by, I think it is, clauses 53 and 75(2)(g). The first one is imposed upon the banks. I must confess that I have heard varying opinions on the administrative difficulty there is going to be for banks to determine whether there is an excess of 10 per cent of stock, or whether there is an excess of 25 per cent of stock, depending upon the two circumstances, ten per cent for the individual who may be buying stock in various parts of the country and there may be different transfer officers. What happens if the transfer books are, say in Montreal, Winnipeg and Vancouver; or there might even be a transfer agent with books of records in London, England. What happens there?

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): Mr. Lambert, may I say that your clauses 44 to 51 have no relationship because these are transmission clauses, not transfer clauses and the transmissions are not blocked by the subclauses in clause 53. Clauses 44 to 51 are simply rewriting of sections 48 to 55 in the present act and they were redrafted in order to simplify the procedures. This means that the proposed changes would leave a bank in a position to continue with book stock, as some have done, but they are intended to facilitate dealings with transfers and transmissions of shares represented by transferable certificates, so that such shares may be dealt with as easily as those of other corporations.

What has been added here, as a new item in clause 45(3) is provision is made for a register of shareholders to be kept at each office where a register of transfers is kept. This is new: previous to this the only register of shareholders was at the head office. But the point you raise, I think, Mr. Lambert, could be

better dealt with when we come to clauses 53 to 56. These are transmissions only, not transfers.

Mr. LAMBERT: Clause 44, and so on talk about transfers. And with the greatest respect, Mr. Elderkin when X sells the shares to Y he transfers those shares. That is not a transmission.

Mr. ELDERKIN: That is right.

Mr. LAMBERT: Therefore these clauses are all particularly applicable.

The CHAIRMAN: Can I make a suggestion that I think would take into account your point of view, Mr. Lambert, and what Mr. Elderkin has said. It would appear to me that clause 44 simply creates the principle that shares of the capital stock are transferable, subject to the provisions of this act, or the bylaw. The provisions are those that should come along later on, and it would seem to me that the points you have in mind, Mr. Lambert, which I think are quite valid to bring before the Committee, could equally well be discussed with respect to other specific clauses because it wou'd seem to me that clause 44 establishes the principle of transferability; clause 45 imposes the obligation of keeping a register in a certain form and in certain places, and clause 46 sets out the technical requirements for transfer. Then as we get along to clause 49 we do get into transmission under operation of law. What I am trying to get is that it seems to me that clause 44 establishes the principle that the shares are transferable subject to later provisions of the act; clauses 45 to 48, inclusive, set forth what one might describe as technical requirements.

Mr. LAMBERT: Regardless of that, Mr. Chairman—I realize that it really has to do with clause 53—what concerns me is that it says here:

> Shares of the capital stock of the bank are transferable in such manner and subject to such conditions as are prescribed by this Act or by by-law.

The CHAIRMAN: That is right.

Mr. LAMBERT: Now, clause 45 provides for a number of registers, but clause 53, however, says that there shall be a refusal to allow a transfer of shares to a non-resident beyond the 25 per cent; then, under clause 53(2), beyond the 10 per cent. I am talking about the administrative difficulties that it would raise.

The CHAIRMAN: I think that is quite in order.

Mr. LAMBERT: I think the two are related. The 10 per cent or 25 per cent is not what I am getting at, but if you permit, under clause 45, multiple transfer records, how are you going to control that?

Mr. ELDERKIN: Because, Mr. Lambert, the transfer records are supposed to report to the share register every day, and they do.

Mr. LAMBERT: That they have an application for transfers.

Mr. ELDERKIN: That is right. Theoretically, at least, if a transfer appeared to be any place near the 25 per cent to a non-resident, the transfer agents would be warned always to check with head office if they had to register before they made this transfer.

Mr. LAMBERT: What about the 10 per cent for the individual?

Mr. ELDERKIN: Exactly the same thing. They have a record in their office of the 10 per cent of the holders of a period not more than four months behind.

Mr. LAMBERT: Yes, but what I could do with four months is amazing.

Mr. ELDERKIN: That is all right, then the bank is relieved; the banks are relieved of this liability if they are working on that register.

The CHAIRMAN: I do not want to interrupt but I want to make a suggestion to help you in your discussion. Perhaps we should discuss clauses 44 to, say, 48, inclusive, at the same time, because they do seem to create an administrative scheme for recording transfers. Does that make some sense?

Mr. LAMBERT: What I am worried about is how do you envisage their getting over what I think is a valid objection about administrative difficulty.

Mr. LAFLAMME: What kind of difficulty?

Mr. LAMBERT: The central register for a bank only has to be up to date within four months. Well, within four months, if I want to go out and buy a number of bank shares, and suppose I have only got 5 per cent, it is conceivable that in the last four months I can buy another 7 or 8 or 9 per cent and have them registerd on the various registry books.

Mr. ELDERKIN: No; there is only one main register.

Mr. LAMBERT: But the transfer books, and clause 53 it says it shall not transfer.

Mr. ELDERKIN: That is right.

Mr. LAFLAMME: The shareholder must give his address; he cannot have two addresses.

Mr. LAMBERT: But if I am registering in London, England, and I am registering in Vancouver, and I am registering in Winnipeg, there is nothing that prevents me from using a business address in each of those places within the country. The central register has only to be four months up to date; there is a four month gap.

Mr. ELDERKIN: Not necessarily, that is the maximum it can be, but not necessarily four months.

Mr. LAMBERT: Mr. Elderkin, I think I am pointing out a whole problem to you.

Mr. ELDERKIN: Nobody is denying the fact at all that there will be some difficulties arising. But various things have been done in this act, or in the amendments thereto, to make it as easy as possible. For instance, we have eliminated the difficulty about small shareholders altogether; that is, if they hold less than $5,000 worth of shares, we do not have to deal with it at all; they are not even considered as associates.

I think the difficulties are going to arise when you get into clause 53, and I will admit there are difficulties in administration here. But the difficulties are not insurmountable; you are working on a central register; you may have 10 transfer offices—as some of the banks have—but they report their transactions every day, as far as that is concerned.

Mr. GILBERT: Have you had any objections from the banks, Mr. Elderkin, with regard to these particular provisions concerning transfers?

Mr. ELDERKIN: I think from an administrative point of view they do not think they are very happy with them; naturally they would not be. We have done our best to meet any objections they have had, and still keep control over the non-resident shareholders.

I might say also, incidentally, that in so far as the non-resident features of this are concerned, that almost without exception they are dealt with in exactly the same way as parliament dealt with the insurance, trust and loan companies last year.

Mr. LAMBERT: Yes; but I am not entirely satisfied with that.

Mr. ELDERKIN: We have made it much easier in this bill, because here we have exemptions of $5,000 per share because of the numerous transactions on the stock exchange in bank shares; if we did not exempt the small transaction, this would cause a lot of hold-ups in the transfer offices. The only hold-up that you can get at the present time is, if a bank is under warning, and it should be under warning from all its transfer offices, that they are approaching the 25 per cent. In the meantime it is possible for a person to run over the 10 per cent, but if he does he loses his voting rights.

Mr. LAMBERT: Which transaction do you unscramble in the excess; the excess may be made up of a number of transactions.

Mr. ELDERKIN: If he acquires over 10 per cent, he loses his voting rights on all of the shares, and the penalty falls on him.

Mr. LAMBERT: On everything beyond 10 per cent, or—

Mr. ELDERKIN: No, on the whole thing.

Mr. LAMBERT: On the whole thing.

Mr. ELDERKIN: He loses all his voting rights. The penalty falls on the shareholder, not on the bank.

Mr. LAMBERT: Even for one share in excess?

Mr. ELDERKIN: Even for one share in excess of 10 per cent.

Mr. LAMBERT: The elephant gun to smite a mosquito.

Mr. ELDERKIN: Possibly; but he can get back his voting rights by selling.

Mr. LAMBERT: Well, I am raising a caveat, Mr. Elderkin; I think you are getting into an administrative can of worms here.

Mr. ELDERKIN: Well, I would not call it as bad as that. We are getting into some administrative difficulties for the banks, and nobody questions that at all. We have tried to make it as easy to manage as possible. They will have some difficulties from time to time, but the powers are there to obtain declarations, and the penalties are there for shareholders who violate it. On the whole, I think, we could not very well have made it much easier, if you want to keep the controls of the 25 and 10 per cent.

Mr. LEBOE: Suppose an individual wanted to buy a certain number of shares, who would be responsible to let him know what amounted to 10 per cent of the share stocks, so that he would not lose his voting rights.

Mr. ELDERKIN: He would be responsible himself.

Mr. LEBOE: He would have to ascertain that from some—

Mr. ELDERKIN: One expects that he would know what the capital stock of the bank was. It is a public figure, published monthly.

The CHAIRMAN: Are there further questions or comments on clauses 44 to 48 inclusive? If not, perhaps I can make one blanket request—

Mr. ELDERKIN: There is one amendment, Mr. Chairman, it is an editorial one, on page 27. I think you are doing up to clause 51?

The CHAIRMAN: No, to clause 48.

Mr. ELDERKIN: Oh, you are just doing it on the one section.

The CHAIRMAN: We are doing clause 44 to 48 inclusive.

Mr. ELDERKIN: I am sorry.

The CHAIRMAN: Shall clauses 44 to 48 inclusive carry?

Clauses 44 to 48 inclusive, agreed to.

On clause 49—*Sale of shares under process.*

The CHAIRMAN: Shall clause 49 carry?

Mr. LAMBERT: I have some difficulty too, about the sale of shares under process. Have you had any experience, Mr. Elderkin, about attempts to seize, not the actual share certificates, but the shareholdings by serving a writ of execution, or a writ of extent on behalf of the Crown on the transfer agent in possession of the share register? I have seen some very grave difficulties concerning this. When I was in National Revenue we had these problems in the case of a company executive who had very extensive shareholdings in an industrial company in the province of Alberta; he owed the crown something like $80,000 under an assessment for income tax, and they could not find the share certificates. They attempted to serve the writ of extent to attach the legitimate claim on behalf of the Crown by serving the writ of extent on the transfer agent, saying: "Well, you have the share registered, and we thereby seize the shares". Somehow, or another, I think someone in the Department of Justice got cold feet and did not pursue the matter. Despite a number of attempts I always find that the matter is still under advisement—the usual thing coming out of some sections of the Department of Justice.

Have you had, in your long experience as Inspector General of Banks, any experience about whether the actual share certificates had to be seized, or whether execution of claims could be served on the transfer agent?

Mr. ELDERKIN: The short answer to that is no. However, I would not necessarily hear of the cases. I might add, however, that we have three banks and both of the savings banks—five altogether—which operate on book stock; they do not issue share certificates; they simply issue what is a certificate that at a certain date the man was a registered holder of shares. There you would have to serve on the share register because the certificate which the person holds is not a valid certificate of ownership whatsoever, it was ownership as of a certain date at a certain time, that is all.

The remaining five banks do issue so-called street stock on which share certificates are exchanged, and often will be exchanged, without doubt, in the name of a broker without ever being transferred; they might pass from one person to another without ever being re-registered—this is quite common in the brokerage world.

Now, in that case, I cannot offer a legal opinion. I do not know whether it would be sufficient to serve the writ still on the share register. I should not be offering legal opinions, but, presumably, you could get a writ to prevent transfer. By the time you got around to that particular writ to prevent transfer, the ownership in that particular certificate might have passed to somebody else.

Mr. LAMBERT: I was just trying to find out whether you have heard about this.

Mr. ELDERKIN: I never have, but, as I say, I would not necessarily hear of it.

Mr. MACDONALD (*Rosedale*): I was just thinking out loud on this Mr. Chairman; in this context presumably it is a matter of interpretation of the relevant federal statute, whether it would be the Income Tax Act, or whatever statute it would be, that execution is being taken under rather than under the Bank Act; would that not be correct? Whether or not the right conferred on the crown under that, say, taxing statute, creates a prior security to all other claims including that of the purchaser, or whether it constitutes a lien only, or whether the lien to be regarded as of notice to the world once it is filed, and once a writ of extent is taken.

Mr. LAMBERT: No, the question comes up directly as to the writ of extent that comes under the jurisdiction of the province in that the execution of the administration of justice falls under the relevant executions act of the province. It is the execution act that tells you what you have to do, and directs the bailiff what he must do. This is a fine legal problem, but I was just wondering whether you had run into it.

Mr. ELDERKIN: No, I have not, but as I say I would not necessarily have learned of it.

The CHAIRMAN: Shall clause 49 carry?

Clause agreed to.

Clause 50 agreed to.

On clause 51—*Transmission by decease.*

The CHAIRMAN: There is an amendment on clause 51, and we will assume that the amendment is moved by Mr. Clermont, seconded by Mr. Lind; this will apply to any other amendments we deal with today.

Moved by Mr. Clermont, and seconded by Mr. Lind:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 15 on page 27 thereof and substituting therefor the following:

"mission in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Mr. ELDERKIN: It is only an addition to subsection (1), Mr. Chairman, to ensure that the bank has the authority to require all the necessary information; that is the only purpose of the amendment. It will be found at line 15, page 27.

Mr. LAMBERT: That is a new subclause?

Mr. ELDERKIN: No, it is an addition to subclause (1).

Mr. LAMBERT: Yes, all right.

The CHAIRMAN: It is an insertion, I presume, is it?

Mr. ELDERKIN: Yes.

The CHAIRMAN: If there are no further questions or comments with respect to the amendment, I will ask if the amendment carries?

Amendment agreed to.

The CHAIRMAN: Shall the clause as amended carry?

Clause 51, as amended, agreed to.

On clause 52—*Definitions. "Agent."*

The CHAIRMAN: There are amendments here, and before beginning our discussions here I would ask the Vice Chairman to take the chair. If it should be necessary for the Vice Chairman to meet other commitments, I have already indicated to our colleague, Mr. Clermont, I will be inviting him to replace the Vice Chairman. If tomorrow morning, at eleven o'clock, circumstances prevent either the Chairman or Vice Chairman to be in the chair, Mr. Clermont will be here.

As you know, this meeting this afternoon is held to help recapture some of the time we spent discussing the deposit insurance bill in the house. Therefore, if circumstances again prevent us from going right on until six o'clock, we will accept that as a matter of course, and adjourn.

Mr. LAMBERT: Mr. Chairman, I am just wondering; that is ordinary house duty, and I do not know that there is a question of capturing or recapturing time in Committee.

The CHAIRMAN: I was not using this in a critical sense.

Mr. LAMBERT: I know, myself, of personal problems, in that I have a long standing commitment to be speaker at a parliament of considerable importance in the province of Alberta starting as of tomorrow. Mr. Elderkin has today handed me a legal opinion from Mr. Ryan in connection with priorities I had raised on clause 88(5).

I have given this a fairly careful look, but Mr. Ryan has raised some very careful and, I may say, complicated legal implications, not only affecting the rights of individuals but affecting the rights of the crown. I would hope that, in the event you do get through, clause 88 will be held over.

The CHAIRMAN: We can come back to it.

Mr. LAMBERT: No, if I may say so, I think this is rather important. I do not know that you have seen this, Mr. Chairman, but—

The CHAIRMAN: What I was about to say was that I wish I shared your optimism of the progress we might make this afternoon.

Mr. LAMBERT: No, I am taking tomorrow into account, and I want to be able to consider this and to see whether what Mr. Ryan has indicated is acceptable or whether we should draw it to the attention of the Committee.

The CHAIRMAN: I am sure we will be able to accommodate your desire to take into account Mr. Ryan's submission.

Mr. CLERMONT: Mr. Chairman, I will request that clause 75(2)(g) stand, as I understand the Minister would like to appear before the Committee on this.

Mr. LAMBERT: Next week.

Mr. CLERMONT: You may make your comments when we reach those articles.

Mr. LAMBERT: Clause 5(2)(g) is a very contentious one; I would hope that we would hold it until next Tuesday as well, as clause 88.

Mr. ELDERKIN: The Minister wants 75(2)(g) held until he comes.

Mr. LAMBERT: Yes, well if that could be Tuesday, I think it would be of considerable importance to everyone concerned.

Mr. CLERMONT: Mr. Lambert, I think we can put both clause 75(2)(g) and 88 over for next week.

Mr. LAMBERT: That suits me fine. I think maybe we will have a look at clause 91, concerning interest rate, too.

Mr. GILBERT: Mr. Chairman, I wonder if we could have copies of that legal opinion that was given to Mr. Lambert?

Mr. LAMBERT: They are questions that I raised, and I will have the Clerk run off copies.

Mr. GILBERT: I see no reason why we cannot have them.

Mr. LAMBERT: All right, fine, I will have copies made, but these are matters that I did not raise privately—they are public—so I take it it would be of value to you.

Mr. ELDERKIN: As a matter of fact, we have passed on the tie voting Mr. Lambert, are you interested in that any more?

Mr. LAMBERT: I will look at that; I may ask to have another look at it but I do not think there is any difficulty about a tie voting because Mr. Ryan has come up with what I thought was the general picture.

Mr. ELDERKIN: It was 88(5).

Mr. LAMBERT: Yes.

The VICE-CHAIRMAN: Mr. Elderkin, do you have any comments to make regarding the amendment to clause 52?

Mr. ELDERKIN: Yes, on clause 52, Mr. Chairman, we have some amendments to paragraph (a). These all arise with respect to the definition of associate status, if any, of provincial agencies. You will recall that at a later date we are providing that there can be investment in non-voting shares of a bank by provincial agencies, such as, pension funds, trust funds, and so on. The amendment to the definition in clause 52(1)(a) is for the purpose of clarifying this. It

now relates to a person; whereas the new one will relate to an official or a corporation performing a function.

That is the only one there, and then if you pass on to page 28, at the very bottom of the page—actually at the beginning of page 29—there are three additional paragraphs proposed. All of these, again, refer to pension funds, and like funds of provincial institutions, and the ownership of shares.

The last item, which is just a consequential one, is in line 41 where it was necessary to change the reference from paragraph (f) to paragraph (h).

These amendments, as such, relate entirely to the ownership by provincial funds of shares in effect.

Mr. MACDONALD (*Rosedale*): Does the amendment assume, Mr. Elderkin, that any individual—living person, that is—would necessarily be an official? Would it not be possible to have some individual acting on behalf of Her Majesty the Queen who was not an official?

Mr. ELDERKIN: They refer to an official acting on behalf of Her Majesty.

Mr. MACDONALD (*Rosedale*): Is the official defined under the Interpretation Act?

Mr. ELDERKIN: They have used it all the way through rather than use the person, but I presume the literal translation means an official person; they have used it all the way through in these amendments, Mr. Macdonald.

The VICE-CHAIRMAN: Does the amendment to clause 52 carry?

Mr. GILBERT: Mr. Chairman, I have a sub-amendment to this clause, but it really refers to clause 53 on page 30, and it is (3) (a).

The VICE-CHAIRMAN: We are on clause 52 now.

Mr. GILBERT: Yes, well clause 52 is the definition clause, and clause 53 is the operative principal clause. If we change 53 we would have to go back and change 52, and any of these subsequent clauses.

The VICE-CHAIRMAN: Then we can have clause 52 as amended stand, and discuss clause 53 right away.

Mr. GILBERT: All right, fine.

On clause 53—*Limit on shares held by non-residents.*

Mr. ELDERKIN: On clause 53 we have one amendment, Mr. Chairman, to subclause (2). This is ancillary to the amendments of clause 52, and relates to the ownership of bank shares by provincial agencies. What was the other point, Mr. Gilbert, that you had in mind?

Mr. GILBERT: With regard to clause 53(3) (a), which says:

> The bank shall refuse to allow a transfer of a share of the capital stock of the bank to
>
> (a) Her Majesty in right of Canada or in right of a province or an agent of Her Majesty in either such right,—

We were going to move an amendment striking out "in right of Canada". I have the amendment here.

The VICE-CHAIRMAN: Mr. Gilbert, do you have a seconder for your amendment?

Mr. GILBERT: I do not think I need a seconder, do I?

The VICE-CHAIRMAN: Yes.

Mr. LEBOE: Do you need a seconder?

The VICE-CHAIRMAN: Yes.

Mr. LEBOE: I will second it to get it off the floor.

Moved by Mr. Gilbert, and seconded by Mr. Leboe:

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out paragraph (a) of subclause (3) of clause 53 thereof and substituting therefor the following:

"(a) Her Majesty in right of a province or an agent of Her Majesty in such right, or"; and

(b) by striking out lines 9, 10 and 11 on page 31 thereof and substituting therefor the following:

"(a) by Her Majesty in right of a province or an agent of Her Majesty in such right or by the government of a".

Mr. ELDERKIN: The purpose of the amendment, presumably, Mr. Gilbert, is to permit the government of Canada to invest in bank shares?

Mr. GILBERT: Yes, that is one of the reasons, Mr. Elderkin, and also if per chance any of the chartered banks went under, then the government of Canada could step in to take over, because there is restriction on the transfer of shares.

Mr. ELDERKIN: But they can step in and take over if the bank goes under; they do not need to take the shares. They do not need to take ownership of a bank to step in under those circumstances.

Mr. GILBERT: It may not necessarily be the Bank of Canada; it may be some other crown corporation that would step in. What I am saying, Mr. Elderkin, is that even though the Bank of Canada could step in or any other agency—

Mr. ELDERKIN: No, the Bank of Canada is not considered an agent of the government; it is not a crown corporation; it is an agent of the government but not a crown corporation, I am sorry. It would not be necessary to own the shares, Mr. Gilbert.

Mr. GILBERT: If it wanted to continue to operate the bank, it would be, Mr. Elderkin. If a chartered bank got into difficulties, what would happen?

Mr. ELDERKIN: They would appoint a curator, and a curator would operate the bank.

Mr. GILBERT: Where would the curator have the authority to operate the bank?

Mr. ELDERKIN: Under clause 120.

Mr. GILBERT: Under 120?

Mr. ELDERKIN: I think it is 120, if I remember rightly.

An hon. MEMBER: It is clause 125, I think.

Mr. ELDERKIN: Yes, it is clause 125.

The VICE-CHAIRMAN: And the following.

Mr. GILBERT: Well, under clause 125, for a curator to take over, the bank has to be insolvent.

Mr. ELDERKIN: Well, if a bank is not insolvent, I cannot picture a situation where a government would want to take over. Can you?

Mr. GILBERT: Well, there may be circumstances. We sort of had a little light on that last week when we had a difference of opinion between Mr. Stevens and Mr. Coyne.

Mr. ELDERKIN: But there was no question of insolvency.

Mr. GILBERT: No, there is not. There may be other problems, Mr. Elderkin.

Mr. CLERMONT: Mr. Chairman, will Mr. Gilbert allow a question?

Mr. GILBERT: Certainly.

Mr. CLERMONT: Do you think that if the government thinks he should step in, he should have the right to do so. Was that the idea of your amendment?

Mr. GILBERT: No, it is not the right, it is the power to do so.

Mr. CLERMONT: Yes, but if you have the power, you have the right.

Mr. GILBERT: Yes, that is right.

Mr. ELDERKIN: But where would they get the power to acquire the shares? Would they go out on the market and buy the shares?

Mr. GILBERT: Well, they would certainly be restricted under this bill of yours.

Mr. ELDERKIN: But they could not seize the shares, could they? There is no power in the Bank Act to give them the right to seize shares.

Mr. GILBERT: You are right.

Mr. ELDERKIN: So, how do they acquire them?

Mr. GILBERT: They would have to purchase the shares, and this imposes the restriction on the government purchasing the shares.

Mr. ELDERKIN: Well, I should not speak for the government, except that this was very carefully considered by the government, and they had no desire to have the power whatsoever.

Mr. GILBERT: What we are really saying is that this limits the government from doing so, if it so wishes. And this goes for a period of 10 years, and it may be that one particular government does not want to do it and others might.

Mr. ELDERKIN: You can always amend the act, Mr. Gilbert. We had that yesterday.

Mr. CLERMONT: Mr. Gilbert, may I ask a question.

Mr. GILBERT: Yes, sir.

Mr. CLERMONT: Even if a bank is not insolvent, should the government have the power to buy the shares and control them?

Mr. GILBERT: Well, there may be certain circumstances, Mr. Chairman, whereby the government must, or should, step in.

Mr. CLERMONT: For what purposes?

Mr. GILBERT: Well, for purposes of operating the bank.

Mr. CLERMONT: Even if it is not solvent?

Mr. ELDERKIN: Mr. Gilbert, may I just add—I have no right to be talking on behalf of the government—but before they could do that they would have to buy over 51 per cent of the shares, to get control of the bank.

Mr. GILBERT: Well, it is not necessarily control.

Mr. ELDERKIN: Well, they cannot do anything unless they have control. They are minority shareholders and they cannot do anything.

Mr. GILBERT: Well, they can always take the position of the watchdog you know.

Mr. ELDERKIN: That is not going to do them much good.

Mr. LEBOE: They also have the privilege of borrowing from the Bank of Canada, do they not?

Mr. ELDERKIN: The bank has?

Mr. LEBOE: Yes.

Mr. ELDERKIN: Of course, it has.

Mr. LEBOE: If it does, I cannot see the situation arising at all. Although I seconded the motion to get it on the floor I—

Mr. ELDERKIN: No, if this is a question of illiquidity—not that illiquidity should ever happen—they can borrow from the Bank of Canada. For instance, you had an example within the last two weeks of the Montreal City and District Bank. Now, what you call illiquidity there was simply a lack of cash to meet the demand that was going on. They had quite sufficient securities and everything, and all they did was deposit the securities with the Bank of Canada, and the Bank of Canada provided them with the cash. The Bank of Canada, under its powers, if you study the Bank of Canada Act, can lend money on almost anything that the bank can lend money on. So, therefore, if the Bank of Canada is a lender of last resort, it can lend against practically all of the assets of the bank.

The VICE-CHAIRMAN: Is the Committee ready for the question.

Mr. MACDONALD (*Rosedale*): Perhaps I have got a slightly better opportunity of speaking for the government that Mr. Elderkin has. It seems to me that the bill that the government has presented here presents a number of circumstances under which government control of either the bank, or banking shares might be desirable. The most obvious situation is that of insolvency. Another situation, of course, where government dealing with bank shares would be of interest, is the one we have just passed under Clause 49 for the purpose of realizing on a private citizen's shareholding for the purpose of executing a debt that the government has against him. I think the view of the present government would be that it would not attempt to sequester the rights of the shareholders; or even,

by market operations, to gain control of a chartered bank so as to put itself in the banking business. We may, I think, have uncovered a basic philosophical difference between Mr. Gilbert and some of the rest of us here.

Mr. CLERMONT: Mr. Chairman, is there nothing to stop any government in the future from going into banking business besides the Bank of Canada, if they want to?

Mr. MACDONALD (*Rosedale*): It seems to me Mr. Chairman, that if there is the intention that the government should go into the chartered banking business in the future, I think it should be by a conscious and deliberate program of legislation, not essentially by the back door under this bill.

The VICE-CHAIRMAN: Is the Committee ready for the question?

Mr. FLEMMING: Mr. Chairman, could I ask Mr. Elderkin whether the government of Canada or the government of a province have the authority to go into the market and purchase bank shares at the present time? Would they have authority to do it?

Mr. ELDERKIN: I could not answer that question Mr. Flemming. I could not answer. Perhaps Dr. Ollivier could answer it, but I really do not know whether that is within the powers of the government. I should think it is actually, but I am only guessing.

Mr. OLLIVIER: I suppose not under this legislation; they would have to bring in new legislation to do it.

Mr. FLEMMING: That is my point. There is no existing legislation by which the government can legally acquire the shares?

Mr. OLLIVIER: No, I do not think so.

Mr. FLEMMING: Either in the open market or otherwise.

Mr. LEBOE: Mr. Chairman, maybe for a matter of clarity it might be just as well at this particular point to have Mr. Elderkin pass comment on the situation regarding the Industrial Development Bank in relation to the act.

Mr. ELDERKIN: Well, this is an example although it is, of course, a different type of bank. In many respects perhaps to have the name "bank" in it is not entirely appropriate to financing institutions. It acquires its money from the government or from sales of debentures, or from stock, not from deposits. It has no dealings on the liability side, if you will, with the public.

The VICE-CHAIRMAN: Is the Committee ready for the question?

Amendment negatived.

Mr. ELDERKIN: Can we then go back to Clause 52, Mr. Chairman?

The VICE-CHAIRMAN: Yes.

On Clause 52—*Definitions.*

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out line 32 on page 27 thereof and substituting therefor the following:

"right, but does not include an official or corporation per-";

(b) by striking out the word "or" in line 51 on page 28 thereof and by striking out paragraph (f) on page 29 thereof and substituting therefor the following:

"(f) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1);

(g) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1); or

(h) both shareholders are associated within the meaning of paragraphs (a) to (g) with the same shareholder."; and

(c) by striking out line 41 on page 29 of the Bill and substituting therefor the following:

"virtue of paragraph (h) of subsection (2) by".

Mr. COMTOIS: I second the motion.

Amendment agreed to.

Clause 52, as amended, agreed to.

The VICE-CHAIRMAN: I do not think we passed the amendment to Clause 53.

Mr. ELDERKIN: No, the amendment has not been passed yet. The amendment was relevant to the provincial authorities.

The VICE-CHAIRMAN: Yes.

Mr. CLERMONT: I move that:

Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 21 on page 30 thereof and substituting therefor the following:

"of a share of the capital stock of the bank to any person, including, without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (a) of subsection (1) of section 52,"

Mr. COMTOIS: I second the motion.

Amendment agreed to.

Clause 53, as amended, agreed to.

On Clause 54—*Voting by resident nominees of non-residents prohibited.*

Mr. ELDERKIN: Mr. Chairman, there is a small amendment to Clause 54. Again it is relevant to, or ancillary to the Clause 52 amendment regarding provincial holdings, using the word "an official or corporation" instead of a person. It is on page 33.

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 21 on page 33 thereof and substituting therefor the following:

"(c) an official or corporation administering, managing or investing"

Mr. LEBOE: I second the motion.

Amendment agreed to.

Clause 54, as amended, agreed to.

The VICE-CHAIRMAN: Is there any discussion on Clause 55.

Clause 55 agreed to.

On Clause 56—*Definitions.*

Mr. ELDERKIN: Mr. Chairman, we have a very important amendment here; it is in your file. It is the one that the Minister announced he would propose with respect to transfers to non-residents, where more than 25 per cent of the shares of the bank are owned by non-residents. In other words, this prohibits the transfer of shares from a non-resident where he, the non-resident, owns more than 25 per cent, to another non-resident.

Mr. CLERMONT: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 15 to 24, inclusive, on page 36 thereof and by substituting therefor the following:

Non-resident ownership of bank.

"(2) Where more than twenty-five per cent of the issued and outstanding shares of the capital stock of the bank were held on the 22nd day of September, 1964, in the name or right of or for the use or benefit of any one non-resident, the bank, so long as the total number of shares of the capital stock of the bank held by non-residents exceeds twenty-five per cent of the total number of issued and outstanding shares of the capital stock of the bank,

(a) shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made or recorded in a register of transfers of the bank; and

(b) shall not accept a subscription for a share of the capital stock of the bank by a non-resident;

but if at any time after the 22nd day of September, 1964, there is no one person in whose name or right or for whose use or benefit more than ten per cent of the issued and outstanding shares of the capital stock of the bank are held, this subsection ceases thereafter to have any force or effect."

Mr. COMTOIS: I second the motion.

The VICE-CHAIRMAN: Is there any discussion?

Mr. CLERMONT: Mr. Elderkin, are you satisfied that the loophole will be closed?

Mr. ELDERKIN: I beg your pardon, Mr. Clermont?

Mr. CLERMONT: Are you satisfied that the loophole is closed?

Mr. ELDERKIN: Oh, yes, definitely. This closes it is far as that is concerned, Mr. Clermont. It is obvious that this was a case of the Mercantile Bank. They now cannot transfer any shares to a non-resident, until they get down to 25 per cent of the outstanding shares.

Amendment agreed to.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I think there is another amendment to this clause at line 21 on page 38.

Mr. ELDERKIN: I am sorry, there is. Thank you; there are two amendments. There is one on Clause 56 (7) (b). There are two amendments. Again this is ancillary to Clause 52.

Mr. CLERMONT: I move:

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 21 on page 38 thereof and substituting therefor the following:
>
> "(b) an official or corporation administering, managing or investing"

Mr. COMTOIS: I second the motion.

Amendment agreed to.

Clause 56, as amended, agreed to.

The VICE-CHAIRMAN: On Clause 57 there are no amendments and no discussion.

Clause 57 agreed to.

The VICE-CHAIRMAN: Now we go to Clause 60.

On clause 60—*Financial year.*

Mr. ELDERKIN: Now, Mr. Chairman, if I may explain this, the amendments which we are proposing are ancillary to statements which appear in the schedules having to do with the requirement of the banks to disclose their total accumulated appropriations, heretofore known as inner reserves, in a form shown in schedule P. This is completely new, as you no doubt, know, and—

The VICE-CHAIRMAN: If you do not mind gentlemen, I have an engagement and must leave right away, so I will ask Mr. Clermont to take the chair and continue the meeting.

Mr. ELDERKIN: In other words, Mr. Chairman, it is just an expansion of the financial statements and disclosure in the financial statements. It is, in effect, a disclosure of what we have previously called the inner reserves.

Mr. FLEMMING: Is this on page 40?

Mr. ELDERKIN: I beg your pardon?

Mr. FLEMMING: Is this on page 40?

Mr. ELDERKIN: This is on page 40, yes. Do you not have the amendments in front of you, Mr. Flemming?

Mr. FLEMMING: I have got the amendments, but I do not think it mentions any page.

Mr. ELDERKIN: It is clause 60 (2) (c). Clause 60 (2) (c) is the heading, I think, of the amendment. It does not mention the page; you are quite right. It is on page 40.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, you will have to change the form of moving the amendments. You were one of the movers. I would be prepared to substitute my name as a seconder to Mr. Lind's motion.

Mr. COMTOIS: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out paragraph (c) of subclause (2) of clause 60 thereof and substituting therefor the following:

"(c) a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form specified in Schedule P and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

Mr. MACDONALD (*Rosedale*): I second the motion.

Amendments agreed to.

Clause 60 (2) (c), as amended, agreed to.

On clause 63—*Auditors.*

Mr. COMTOIS: I move:

On Clause 63 (12)

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out subclause (12) of clause 63 thereof and substituting therefor the following:

"(12) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be sumitted by the directors under section 60."

And on Clause 63 (13):

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 45 and 46 on page 43 thereof and substituting therefor the following:

"end of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for losses for the year, and shall include such"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: There is an ancillary amendment here. In effect, this requires the auditors to report on the statement of accumulated appropriations mentioned in Clause 60. There is a further amendment in subclause (12), and in Clause (13); again it is a matter of the auditor's report. Both of these are relevant to the auditor's report on the financial statements of the bank and relate to the disclosure of the accumulated appropriations for losses for the year.

Mr. LEBOE: I presume that these auditor's statements will appear in the auditor's bank statement.

Mr. ELDERKIN: Oh yes; they are required to, Mr. Leboe.

The ACTING CHAIRMAN (*Mr. Clermont*): Does the Committee agree to amendments 12 and 13 of Clause 63. Does the committee approve clause 63 as amended.

Amendments agreed to. Clause 63, as amended, agreed to.

On clause 64—*Inspector General of Banks.*

Mr. COMTOIS: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out subclauses (6) to (9) of clause 64 thereof and substituting therefor the following:

Salary and status of inspector.

"(6) The Inspector shall be paid a salary fixed by the Governor in Council on the recommendation of the Minister and shall be an officer of the Department of Finance, but the provisions of the *Public Service Employment Act* do not apply to him.

Borrowing from banks.

(7) The Inspector and any person temporarily performing the duties of the Inspector shall not borrow money from a bank unless he has first informed the Minister in writing of his intention to do so.

Officers and employees.

(8) Such other officers and employees as are necessary for the proper conduct of the duties of the Inspector shall be appointed in the manner authorized by law."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendments to clause 64 are simply to provide that the staff of the office of the Inspector General of Banks shall be civil servants. Ever since the office of the Inspector General of Banks was set up, it has been a special division and the staff are not civil servants; they have been appointed by the minister of the recommendation of the Inspector General of Banks. There appears to be no reason now, why the staff should not be members of the civil service and the amendment is for that purpose.

Mr. LEBOE: If I remember correctly, Mr. Chairman, the staff is not very big.

Mr. ELDERKIN: No, the staff is not very big.

The ACTING CHAIRMAN (*Mr. Clermont*): Does the committee agree on the amendment?

Amendment agreed to.

Clause 64, as amended, agreed to.

Clauses 65 and 69 agreed to.

On Clause 72—*Cash reserve.*

Mr. COMTOIS: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out lines 11 and 12 on page 48 thereof and by substituting therefor the following:

"the average during any month than an";

(b) by renumbering subclauses (3) to (6), inclusive, of clause 72 on pages 48 and 49 thereof as subclauses (4) to (7), inclusive; and

(c) by adding immediately after line 31 on page 48 thereof the following:

Twice monthly averaging.

"(3) Notwithstanding subsection (1), the cash reserve to be maintained by the bank pursuant to subsection (1) in any month following the twelfth month after the coming into force of this Act shall, if so required by the Bank of Canada, be not less on the average during each of the two separate periods comprised of the first fifteen days of that month and the remaining days of that month than the amount specified in subsection (1); and in the event of such a requirement, the Bank of Canada shall make its requirement apply generally to all banks, give written notice of its action specifying the months to which the requirement applies, publish such notice forthwith in the *Canada Gazette* and mail a copy of the notice to all banks not less than thirty days before the first day of the first of the months so specified, and may, at any time by advice notified in the same manner, reduce in number the months to which the requirement applies." and

(d) by striking out lines 7 and 8 on page 49 thereof and by substituting therefor the following:

"any month mentioned in subsection (1) or (4) or any period mentioned in subsection (3)"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: Mr. Chairman, there are some quite important amendments to clause 72. I might deal with them, I think, by the subclauses.

Mr. MACDONALD (*Rosedale*): Mr. Elderkin, if I understood, the Chairman himself suggested that this one should stand until next week.

The ACTING CHAIRMAN (*Mr. Clermont*): Yes; 72(g)—

Mr. ELDERKIN: No, clause 75(2) (g) was the one that was to stand.

Mr. GILBERT: He has pointed out that these are important clauses. We do not have a quorum. I was wondering if we should proceed.

The ACTING CHAIRMAN (*Mr. Clermont*): I am told that Mr. Flemming is just outside answering a telephone call. Maybe we can wait. Does Mr. Gilbert want to comment on Clause 72?

Mr. GILBERT: No.

Mr. ELDERKIN: We have a very important amendment here and I think I should bring it particularly to the attention of the Committee. In Clause 72, as it appears in the bill, subclause (1) provided for a cash reserve based on a split month; in other words a period during the first fifteen days of the month and then a period of the remaining days in the month. The Bank of Canada, after further consideration of this, decided that they would prefer to go back to what is the present practice, namely, to have the cash reserve based on the period of the full month; but they wish to reserve the right to place it on a twice monthly averaging period if, at some time in the future, monetary conditions appear to require it and, therefore, your first amendment to subclause (1) brings it back to the average of the month instead of the average of the two periods. Then there is a new subclause (3) which gives the Bank of Canada the power to require a twice monthly averaging if a month's notice is given and published in the *Canada Gazette,* and mailed to all the banks. It also provides that at any time

after such advice has been given, the Bank of Canada may withdraw the requirement. That is, as I say, quite an important administrative difference and I thought I would like to explain to you the effect of the four amendments to clause 72.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on the amendments proposed for clause 72?

Mr. LEBOE: I think it is an improvement.

(*Translation*)

The ACTING CHAIRMAN: (*Mr. Clermont*): Mr. Latulippe, have you any comments?

Mr. LATULIPPE: On article 72?

The ACTING CHAIRMAN: Yes, Mr. Latulippe.

Mr. LATULIPPE: On article 72 about reserves, they were 5 per cent and raised to 8 per cent in 1966. That is an average of 7 per cent. I suggest that we gradually scale up the proportion of these reserves at the rate of 6 per cent a year so that the reserves come to equal 100 per cent of the deposits so that the banks will no longer be issuing credit. We have taken from them the right to issue their bank notes. This amendment I want to bring to article 72.

The ACTING CHAIRMAN: Have you got a written amendment?

Mr. LATULIPPE: I did not bring a written amendment, I did not think of it.

The ACTING CHAIRMAN: Are you prepared to draft an amendment?

Mr. LATULIPPE: Yes, I am. An amendment to be written as follows.

The ACTING CHAIRMAN: You will have to draft it. Would Dr. Ollivier be good enough to help Mr. Latulippe to draft his amendment?

Mr. LATULIPPE: If you want it drafted, it would read: "The reserves to be lowered by 7 per cent...

Dr. OLLIVIER: What are you referring to, what paragraph?

Mr. LATULIPPE: It is article 72.

Dr. OLLIVIER: 72 (2) or what?

Mr LATULIPPE: 72 (1) (a) and (b). Paragraph (b), we will take out paragraph one, particularly (b). "4 per cent as such of its deposit liabilities payable after notice in Canadian currency". It is subsections (a) and (b).

Dr. OLLIVIER: What are you going to do?

Mr. LATULIPPE: I am going to make an amendment so the banks will not lower their reserves to seven per cent, I suggest that this percentage of reserves be gradually raised by 10 per cent a year and the proportion of reserves correspond in ten years to 100 per cent deposit. That is the cash reserves be raised by 10 per cent each year until within 10 years the deposits correspond to cash reserves.

Dr. OLLIVIER: Give me your text.

The ACTING CHAIRMAN: Do you mean to say, Mr. Latulippe, increase or reduce?

Mr. LATULIPPE: Increase the cash reserves 10 per cent a year until you have 100 per cent.

(*English*)

Dr. OLLIVIER: I could give you the purpose of the amendment. It is simply that the reserve be increased by 10 per cent a year until you have reached 100 per cent, so that the banks finally will lend only to the amount of their reserve, this reserve being in the end 100 per cent instead of having only a reserve of 7 or 8 per cent. You could vote on that amendment subject to its being drafted afterwards if it should carry.

Mr. GILBERT: I was going to suggest, Mr. Chairman, that we let the clause stand until tomorrow to let Dr. Ollivier and Mr. Latulippe draft it.

The ACTING CHAIRMAN (*Mr. Clermont*): Is there any member present who would second this sub-amendment?

Mr. GILBERT: Yes, I will second it just to help Mr. Latulippe.

Dr. OLLIVIER: Is it necessary that you have it in writing. You can vote on it and if it is passed we can draft it afterwards.

(*Translation*)

Mr. MACDONALD (*Rosedale*): May I say that the Government is not in agreement with this amendment at all.

(*English*)

Mr. OLLIVIER: Why do you not vote on it, subject to it being drafted, if it is agreed to.

(*Translation*)

Mr. MACDONALD (*Rosedale*): I propose a vote, Mr. Chairman.

The ACTING CHAIRMAN (*Mr. Clermont*): I was going to ask Mr. Macdonald to wait for the return of a member, but I see that we have a quorum now and the sub-amendment can be brought up before the Committee.

Mr. OLLIVIER: The amendment is that the reserves, which are now 8 per cent, be increased 10 per cent a year until they reach 100 per cent, so that the banks will lend at the moment at 8 per cent and finally they will lend only when they are entirely covered 100 per cent.

The ACTING CHAIRMAN (*Mr. Clermont*): Mr. Wahn, we are on Clause 72. We have a sub-amendment brought before us by Mr. Latulippe seconded by Mr. Gilbert. Is the Committee ready for question? Will Dr. Ollivier read the amendment again.

Mr. OLLIVIER: The amendment is that the reserves be increased from 8 per cent, as it is now, by 10 per cent a year till it reaches 100 per cent, so that the bank will be protected by being able to loan only up to as much as it has in its funds and not 100 per cent for 10 per cent. Not $10.00 for $1.00.

Mr. LEBOE: Mr. Chairman, I would like to ask a question here for clarification. Is it not a fact that this would not apply to the trust companies or loan

companies, and therefore they would be at a distinct advantage in their operations over the banks.

Mr. ELDERKIN: Very much so.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the committee ready for the question.

Sub-amendment negatived.

Mr. CLERMONT: As I said, Mr. Wahn, we are on clause 72 and the amendments that were explained to this Committee by Mr. Elderkin. Are there any comments on the amendment to clause 72, as explained by Mr. Elderkin.

Amendment agreed to.

Clause 72, as amended, agreed to.

Clause 75 stands.

The ACTING CHAIRMAN (*Mr. Clermont*): I think we now move on Clause 76.

Mr. ELDERKIN: You propose to stand the whole of Clause 75.

The ACTING CHAIRMAN (*Mr. Clermont*): Yes, sir. If the committee agrees, I would suggest that clause 75 stand. Is it agreed?

Some hon. MEMBERS: Agreed.

The ACTING CHAIRMAN (*Mr. Clermont*): Clause 76.

On Clause 76—*Ownership of corporate stock.*

The ACTING CHAIRMAN (*Mr. Clermont*): We have some suggested amendments to clause 76.

Mr. COMTOIS: I move, seconded by Mr. Macdonald (*Rosedale*):

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out lines 41 to 49 inclusive, on page 53 thereof and by substituting therefor the following:

Ownership of corporate stock.

"76. (1) Except as provided in this section, the bank shall not own shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof, or

(ii) in any number that would, on the basis of the price paid or agreed to be paid by the bank, make the investment of the bank in such of the shares of the capital stock of the Canadian corporation as have voting rights attached thereto more than five million dollars,

whichever is the greater number; or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by

the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the";

(b) by striking out lines 11 to 16, inclusive, on page 54 thereof and by substituting therefor the following:

"outside Canada owns shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the bank and the corporation incorporated outside Canada, permit the bank and the corporation incorporated outside Canada to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof, or

(ii) in any number that would, on the basis of the price paid or agreed to be paid by the corporation incorporated outside Canada and the bank, make the combined investment of the corporation incorporated outside Canada and the bank in such of the shares of the capital stock of the Canadian corporation as have voting rights attached thereto more than five million dollars,

whichever is the greater number; or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the bank and the corporation incorporated outside Canada, permit the bank and the corporation incorporated outside Canada to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the bank at the coming into force of this Act, shall be sold or disposed of before the first day of July, 1971.";

(c) by adding after subclause (3) of clause 76 on page 54 thereof the following new subclause (4):

Exception.

"(4) The bank may own shares in excess of the maximum number prescribed by this section, if the shares are acquired through a realization of security for any loan or advance made by the bank or any debt or liability to the bank, but any such shares acquired after the coming into force of this Act shall be sold or disposed of by the bank within a period of five years from the day on which they were acquired.";

(d) by striking out subclause (6) of clause 76 on page 54 thereof and by renumbering the present subclauses (4) and (5) on page 54 as subclauses (5) and (6), respectively; and

(e) by striking out line 32 on page 55 thereof and by substituting therefor the following:

"province; and

"Trust or loan corporation."

(c) "trust or loan corporation" means a Canadian corporation that carries on the business of a trust company within the meaning of the *Trust Companies Act* or the business of a loan company within the meaning of the *Loan Companies Act* and that accepts deposits from the public."

Mr. ELDERKIN: Because of representations made here by members of the Committee and by other witnesses who appeared before it the Minister is proposing an amendment which he mentioned during his appearance here last week. The effect of the amendment is to really change pretty well the whole structure of the first four subclauses. In other words, the bank would be permitted to hold shares in a Canadian corporation other than a trust or loan corporation in any number that would, under the voting rights attached to the shares permit the bank to vote up to 10 per cent of the total votes or in any number that would, on the basis of the price paid or agreed to be paid by the bank, make the investment of the bank in such of the shares as have voting rights attached thereto up to $5 million. With respect to a trust or loan corporation, however, the restriction is entirely on the 10 per cent and no suggestion or provision for the $5 million investment.

Now, this has to carry over into subclause (2) because subclause (2) relates to a foreign corporation which, with the bank, holds shares in a Canadian corporation. In other words, subclause (1) restricts the investment of voting shares of Canadian trust and loan corporations to 10 per cent and other companies to 10 per cent or $5 million whichever is the greater.

The amendment to subclause (2) is to prevent an evasion of (1) by use of a foreign subsidiary. Subclause (4) is a change which has been made, again, at the suggestion of one of the members of the Committee here; where the bank acquires shares in excess of the maximum number prescribed through the realization of a loan, this provides that the shares must be disposed of within a period of five years from the day on which they are acquired.

Then, the remainder of the amendment—as you can see, it is quite a long one—is for the purpose of setting up definitions of what a trust or loan corporation is under the provisions of another clause.

This will, as I think the Minister mentioned in the course of his evidence the other day, and to supplement it by mine, mean that the ones we have discussed here, such as RoyNat and Kinross, will be able to continue with their present holdings and UNAS will be able to continue with its present holdings as well. The ones that will be affected will be where share ownership by a bank in a trust company accepting deposits from the public will over a period of five years or, with an extension, seven years, have to be reduced to 10 per cent.

The ACTING CHAIRMAN *(Mr. Clermont)*: Are there any comments?

Mr. WAHN: I would like to be sure that I know what is being done by this amendment. I am not speaking now of loan or trust corporations. Is it correct that there is not much change in the provision limiting the ownership in loan and trust corporations?

Mr. ELDERKIN: No, that is right.

Mr. WAHN: So we are referring now only to corporations other than trust and loan corporations?

Mr. ELDERKIN: Yes.

Mr. WAHN: Previously a bank had been forbidden to own more than 10 per cent of the voting stock of any such corporation?

Mr. ELDERKIN: That is right.

Mr. WAHN: Now, there is going to be in practice, and I think we should realize it, no limitation whatsoever, if this wording is adopted, upon what banks can do because they are permitted, as I gather, to own either 10 per cent or to invest up to $5 million in voting stock.

Mr. ELDERKIN: This is right.

Mr. WAHN: Whichever gives them the greater number of shares.

Mr. ELDERKIN: That is right.

Mr. WAHN: So the provision permitting them to invest up to $5 million in voting stock would give them leeway to make arrangements to acquire control of almost any corporation that you could think of in Canada because the limitation is not to a total investment of $5 million but to an investment of $5 million in voting stock.

Mr. ELDERKIN: That is correct.

Mr. WAHN: In other words, they could contemporaneously with taking up $5 million in voting stock, take up $100 million in non-voting preferred and $500 million or $600 million, if they wished, in debentures of any sort, so their total investment in any such corporation could be unlimited. I think we should recognize—I do not know whether it is a good thing or a bad thing—that, in fact, this wording will, for all practical purposes eliminate any restriction on the chartered banks with regard to the control of the great majority of Canadian corporations. There may be the odd one like General Motors of Canada or Chrysler Corporation of Canada or maybe Bell Telephone where the $5 million might be a restrictive feature, but I think that is probably the only type of corporation that would be affected.

Mr. ELDERKIN: This is so to a certain extent, Mr. Wahn. The $5 million is a figure that the royal commission suggested might be a measurement.

Mr. WAHN: In voting stock or total investment?

Mr. ELDERKIN: It is not very clear, as a matter of fact. They said that ownership—

Mr. WAHN: Mr. Chairman, I think you would have to agree that if it is in voting stock there is, in fact—apart from one or two very major corporations in Canada—no restriction at all because if, for example, a Canadian chartered bank

wanted to enter into a deal to acquire control of some other Canadian corporation, it could very easily so arrange matters that in addition to the voting stock—if additional investment over and above the $5 million were required—it could go in the form of debentures or non-voting preferred shares.

Mr. ELDERKIN: Really, this is not so very much of a change in one respect because even in the present bill they could have invested in non-voting preferred shares and in debentures. The only change here is the $5 million as an option. In the bill, as it stands today, it was limited to 10 per cent of the voting shares.

Mr. WAHN: That is right, but with the $5 million you could have 99 per cent or 100 per cent of the voting shares—

Mr. ELDERKIN: Of a very small company, you could.

Mr. WAHN: Of a very large company because $5 million in voting shares would make it a very large company.

Mr. ELDERKIN: It would depend on the other financing. I agree. This is quite correct. The thinking behind this actually is that the government has come to the conclusion that these institutions or corporations such as RoyNat, Kinross, UNAS et cetera, have done a good job, if you will, in the past and that it did not seem desirable at this time to try to put them out of business. As a matter of fact, the royal commission suggested and that they should not be put out of business and the royal commission's report, if I remember, was that the government should look at them to see—I do not have the exact words—whether in any of their actions they would place the public in jeopardy, or something to that effect. If we did not put the $5 million in this amendment it would not exclude those companies, it would not cover those companies and they would be forced out of business.

Mr. WAHN: You see, I object to this test because it is a meaningless test, completely meaningless. I think you have to establish the proper principle. Are you going to restrict them to a certain definite investment in the company? A $5 million investment in voting stock is not the type of test which is meaningful at all. I does not reflect any principle. It is just an arbitrary figure, as I see it.

Mr. ELDERKIN: Perhaps, that is true. Actually it was set to fit the present circumstances. That is all I can say.

Mr. WAHN: Should the test not be related to total investment rather than to investment in voting stock? If you adopt this test not only will you make the exception apply to those companies which you mentioned which really should be excepted, but you will completely destroy the basic principle.

Mr. ELDERKIN: If you did not relate this to voting stock you would not exempt those companies.

Mr. WAHN: I beg your pardon?

Mr. ELDERKIN: I said that if you did not give them the $5 million option instead of the 10 per cent, you would not exempt those companies.

Mr. WAHN: If you made the $5 million relate to the total investment, would you not—

Mr. ELDERKIN: No.

Mr. WAHN: Then, why not pick a figure which would exempt them?

Mr. ELDERKIN: Actually you would have to pick a very substantial figure of several millions—many, many millions—to exempt them because they own debentures, they own preferred shares—

Mr. WAHN: Whatever the figure might be it would be better than this which could be completely unlimited.

Mr. ELDERKIN: Then if you did that it would relate to future companies, too, on the same basis. You would have no limit on future companies.

Mr. WAHN: I say that with this test, in effect, you have no limit on any companies whatsoever, because if the bank wanted to do a take-over of a Canadian corporation—this could only be done by agreement anyway—they would so arrange matters that there could be a relatively small amount of voting stock and a great deal of non-voting stock or debentures.

Mr. ELDERKIN: That is true.

Mr. WAHN: All I am saying is that a bank under this test could take over any corporation in Canada with the consent of the present owners of that corporation because they could rearrange the stock accordingly.

Mr. ELDERKIN: One would expect that in view of the added powers that the banks have, that none of these corporations are going to continue to be as attractive to them as they were in the past.

Mr. WAHN: Then, of course, you do not need the provision.

Mr. ELDERKIN: I am not saying that they would not continue them, I am simply saying that they would not be so attractive to them as they were in the past.

Mr. WAHN: Mr. Chairman, it seems to me that the Committee should realize what it is doing. All I am saying is that it is quite clear to me that if this particular test is adopted, then the Committee is, in effect, accepting a complete deletion of the restriction, except on paper, but in practice it could involve the complete deletion of the restriction so far as non-trust or loan corporations are concerned because if a bank wants to take over any Canadian corporation by agreement with that corporation, even if the total voting stock was more than $5 million, things could be so arranged that the capital structure would be changed and the investment of the bank could go in the form of non-voting stock or in the form of debts. I do not think there is any very practical restriction upon what a bank can do under this new test. I would have thought that if the only purpose of this change is to preserve the rights of the bank to own existing companies, that could have been so stated or some different test been made.

Mr. MACDONALD (*Rosedale*): I am not sure I would agree with Mr. Wahn on this point, but, perhaps, Mr. Elderkin could correct my thinking on this. As I understand it subclause (1) and subclause (2) are alternatives. Subclause (2) is really talking about the man bites dog situation to which Mr. Wahn referred where you have such an enormous corporation that less than 10 per cent of the voting stock may mean effective control, but surely all these smaller corporations and one, say, the size of Bell Telephone will be caught under subclause (1) so that except by some kind of a device short of exercise of voting rights, the bank

can never control any other corporation because the maximum it can hold is 10 per cent of the stock. In other words,—

An hon. MEMBER: It does not say that?

Mr. MACDONALD (*Rosedale*): Yes, sure it does—

Mr. WAHN: Not as I read it. If that is correct, please let me know.

Mr. ELDERKIN: Whichever is the greater.

Mr. WAHN: So you could own 90 per cent of the stock as long as it is not more than $5 million worth of voting stock, as I read it. Is that not correct, Mr. Elderkin?

Mr. ELDERKIN: Yes, whichever is the greater.

Mr. WAHN: Whichever is greater. In other words, as I understand the provision, the bank can own 100 per cent of any corporation as long as the amount it pays for the voting stock in that corporation does not exceed $5 million. It can have a total investment in the corporation of a billion dollars but as long as the voting stock does not exceed $5 million it can own up to 100 per cent of that corporation.

Mr. MACDONALD (*Rosedale*): You are assuming that 90 per cent would be in the hands of strangers. Now, surely, that is effective control in the hands of strangers and out of the hands of the control of the bank.

Mr. WAHN: I am sorry, I do not follow that.

Mr. MACDONALD (*Rosedale*): Surely if 90 per cent of the voting stock is in the hands of strangers which would have to be the case—

Mr. WAHN: No, no, under this provision, as I understand it and Mr. Elderkin will correct me if I am wrong, the bank can own 100 per cent of the stock of any Canadian corporation other than a trust or loan corporation provided its investment in voting stock does not exceed $5 million.

Mr. MACDONALD (*Rosedale*): Exactly. No, no, it is not permitted to hold more than 10 per cent of the voting stock and the $5 million test only applies for less than 10 per cent.

Mr. WAHN: That is not my understanding.

Mr. ELDERKIN: It is whichever is the greater, Mr. Macdonald.

Mr. WAHN: Am I not correct in saying that if this test is adopted the banks can own 100 per cent of any corporation in Canada other than a trust or a loan corporation? It can own 100 per cent of the stock if investment in the voting stock of that corporation does not exceed $5 million. This is a complete denial of the basic principle of the clause which we originally had.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments from other members?

Mr. GILBERT: Mr. Chairman, probably Mr. Wahn has an amendment which he wishes to make.

Mr. WAHN: No, I have not.

Mr. GILBERT: He explained it very clearly.

Mr. WAHN: I would like the Minister to have a look at it. I would like to know what the interpretation means.

Mr. ELDERKIN: Mr. Wahn, the interpretation is quite right.

Mr. FLEMMING: Mr. Chairman, as I understand it now, the object of the amendment is to meet existing situations.

Mr. ELDERKIN: Yes, for the most part.

Mr. FLEMMING: There is a difference apparently between our legal friends around this board as to the language. I do not think there is any difference as to the object. Therefore, it seems to me that the clause might stand and we might proceed and get it cleared up to the satisfaction of all concerned, because I am sure if we understand the substance of what it is desired to do, then I think the people who draft the amendment can make the changes, if they are necessary, as outlined by Mr. Wahn.

The ACTING CHAIRMAN (*Mr. Clermont*): Does the Committee agree to stand clause 76.

Some hon. MEMBERS: Agreed.

Clause 76 stands.

On Clause 77—*Bank debentures.*

Mr. COMTOIS: I move that:

Clause 77(2)

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out the words and figures "in any financial year of the bank commencing after the 31st day of October, 1966," in lines 38 and 39 at page 55 thereof.

Clauses 77(5) and (6)

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out subclauses (5) and (6) of clause 77 at page 56 thereof and substituting the following:

Issue date.

"(5) The bank shall not issue bank debentures dated more than sixty days before the date of the issue of the debentures; but this subsection does not apply to a debenture issued in exchange for or in replacement of one that has the same stated maturity and that is not then being redeemed or paid.

Limit on bank debentures.

(6) The bank shall not issue bank debentures if, as a result of the issue, the aggregate principal amount of its bank debentures outstanding that have a stated maturity after the end of the financial year of the bank in which the issue is made, would exceed the lesser of

(a) an amount equal to one-half of the total of the paid-up capital stock and rest account of the bank at the time of the issue; or

(b) the amount obtained by multiplying the total of the paid-up capital stock and rest account of the bank at the time of the

issue by the number of financial years of the bank completed after the 31st day of October, 1965, and dividing the product obtained by ten."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendment on Clause 77, subclause (2) is simply to strike out the words "in any financial year of the bank commencing after the 31st day of October, 1966." Since we are long past that date now the words are redundant.

On clause 77, subclauses (5) and (6) there are some amendments which are necessary. Subclause (5) provides for the replacement of lost or mutilated certificates which we had not done in the original draft and subclause (6) strikes out the financial year 31st of October, 1966, and replaces it with the 31st of October, 1965, because there has to be a full, complete year on which to base this. Therefore, to allow the banks to issue debentures in 1967, the calculation has to be made for the financial year 1966; that is, in other words, the financial year following 1965. This is the purpose of these two amendments.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on the amendment to Clause 77(2)? Are there any comments on clause 77(5)?

Mr. GILBERT: Mr. Chairman, I would like to ask Mr. Elderkin a question for information. Do all the banks have their fiscal year ending October 31?

Mr. ELDERKIN: Mr. Gilbert, that is required now if you look at clause 60. They all have their fiscal year ending October 31. This is one of the reasons we asked the banks to go on a uniform fiscal year. Last year they all reported as of October 31, and will in the future—all new banks will have to.

Mr. GILBERT: Did they in 1965, Mr. Elderkin?

Mr. ELDERKIN: Yes, they did in 1965. But in 1965 it was a broken period for three of the banks. For one bank it was 13 months and two banks were 11 months but they all reported as at October 31, 1965.

The ACTING CHAIRMAN (*Mr. Clermont*): Clause 77(2)?

(*Translation*)

Mr. LATULIPPE: I would like to have some information, if the banks had the right before that date to emit debentures—

(*English*)

Mr. ELDERKIN: No; they have no right at the present time to issue debentures. They will not have the right until this bill comes into force.

(*Translation*)

Mr. LATULIPPE: If I understand the bill right, this bill gives them the right to issue this type of debentures?

(*English*)

Mr. ELDERKIN: That is correct. Clause 77 gives them the right to issue debentures, for the first time.

(*Translation*)

Mr. LATULIPPE: The financial institutions will be on the same footing as any other institution, they request the same rights, but they have the additional right of being able to issue a form of credit which other financial institutions do not have. Is that correct, have I understood correctly?

(*English*)

Mr. ELDERKIN: The other trust and loan companies issue credit and the caisse populaire issues credit, as far as that is concerned, but that is not changing what powers they had before. These are additional powers and powers which, incidentally, loan companies have today to issue debentures as well.

(*Translation*)

Mr. LATULIPPE: This gives the banking institutions more privileges than they had previously, it gives them the right to issue new debentures, is that what I understand?

(*English*)

Mr. ELDERKIN: That is correct.

The ACTING CHAIRMAN (*Mr. Clermont*): Are the amendments brought up by Mr. Elderkin—Clause 77(2), (5) and (6) approved by the Committee.

Some hon. MEMBERS: Agreed.

Is clause 77, as amended, approved?

Amendment agreed to.

Clause 77, as amended, agreed to.

On Clause 82—*Loans on hydrocarbons*

Mr. ELDERKIN: There are no amendments to this, and there are no changes from the present act, with the small exception in subclause (1), which, in effect, provides for the security taken under section 82 of the present act, and which apparently would not be effective when held in support of a guarantee of an obligation. Since it is the practice in the oil industry to finance development through subsidiary companies with a guarantee by the parent company, this provision would ensure that the security taken under this section will be effective when held in support of such a guarantee. That is the purpose of the change but it is not an amendment. It is just a change from the old act.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on Clause 82?

Clause 82 agreed to.

On clause 83—*Lien on bank shares.*

Mr. ELDERKIN: There is no change in the present act.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on Clause 83?

Mr. GILBERT: Mr. Chairman, I wonder if Mr. Elderkin gave any consideration to the suggestions by Professor Ziegel with regard to these particular clauses?

Mr. ELDERKIN: I did not but the Department of Justice did, Mr. Gilbert, and they felt that no changes were necessary.

Mr. GILBERT: I see.

Mr. ELDERKIN: I referred Professor Ziegel's memorandum or brief to the Department of Justice and they felt that it was unnecessary to make any changes in Clauses 82 or 85.

One point that Professor Ziegel did bring up was the fact that some of these clauses appeared to be out of order and this is perfectly true. I mentioned this when I was introducing or tabling amendments at the first session. We got into a bit of trouble because in many provincial laws they refer to Section 82 or Section 88 of the Bank Act and if we do not stay with that particular numbering the provincial legislation will run into a considerable amount of trouble. Therefore, we had to do some juggling. Nobody likes the present order at all but we just had to do it to get them in the right numbers, that is all.

Clause 83 agreed to.

Clauses 84 to 87, inclusive, agreed to.

The ACTING CHAIRMAN (*Mr. Clermont*): I believe the Committee agreed that Clause 88 should stand.

Some hon. MEMBERS: Agreed.

Clause 88 stands.

On Clause 89—*Priority of bank's claim.*

Mr. GILBERT: Mr. Chairman, clauses 89 and 90 are dependent on 88. Is that correct, Mr. Elderkin?

Mr. ELDERKIN: Yes, there are some cross-references to it. Probably it would be better under the circumstances, Mr. Chairman, if clause 89 stood with clause 88.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the Committee agreeable to let Clause 89 stand as we have stood Clause 88?

Some hon. MEMBERS: Agreed.

Clause 89 stands.

Mr. MACDONALD (*Rosedale*): Perhaps right up to clause 90.

Mr. ELDERKIN: Mr. Chairman, I think clause 90 should stand as well.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the Committee agreeable to letting clause 90 stand as well?

Some hon. MEMBERS: Agreed.

Clause 90 stands.

On Clause 91—*Powers re interest.*

Mr. COMTOIS: I move:

91(3)(6) That Bill C-222, An Act respecting Banks and Banking, be amended,

(a) by striking out lines 35 to 48, inclusive, on page 74 thereof and by substituting therefor the following:

"advance referred to in subsection (2) is, for any part of an interest period commencing on or after the first day of January, 1967, one and three-quarters per cent plus the average of the market-yield on short-term bonds of Canada for all Wednesdays in the averaging period immediately preceding such interest period, calculated to the nearest one-quarter of one per cent or, if the result would be equidistant from two multiples of one-quarter of one per cent, to that multiple thereof that is the lower." and

(b) by striking out lines 22 to 24, inclusive, on page 75 thereof and by substituting therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof;".

91(9) (10) That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out line 14 on page 76 thereof and by substituting therefor the following:

"subsections (2) to (8) of this section, subsection (1) of section 93, section 112 and subsection (1) of section 151 expire on the fifteenth"; and

(b) by striking out line 20 on page 76 thereof and by substituting therefor the following:

"(8) of this section and subsection (1) of section 93 expire shall be given by proclamation of"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: Mr. Chairman, on clause 91, you will recall that the Minister announced in the house that he was going to present an amendment to this particular clause—well, in fact, to all the lending clauses for disclosure of costs. I am sorry, the first amendment does not relate to that. The first amendment that is here is with respect to the interest rate.

Mr. GILBERT: Mr. Chairman, before Mr. Elderkin gets into it, I think that Mr. Lambert asked that this section be stood.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it agreeable to the Committee that we stand Clause 91.

Some hon. MEMBERS: Agreed.

Clause 91 stands.

On Clause 92—*Charges on discounts.*

On Clause 93—*No charge on government cheques.*

Mr. ELDERKIN: Mr. Chairman, there has been a considerable amount of redrafting and I think if you stand clause 91 you should probably stand clauses 92 and 93 as well because in drafting for disclosure of the cost of loans the draftsmen have done a considerable amount of changing around between clauses 91, 92 and 93 and I suggest that it might be well to stand the three of them.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it the wish of this Committee that clauses 92 and 93, as suggested, stand.

Some hon. MEMBERS: Agreed.

Clauses 92 and 93 stand.

(*Translation*)

Mr. LATULIPPE: 91 stands as it is?

The ACTING CHAIRMAN (*Mr. Clermont*): Yes, Mr. Latulippe, 91, 92 and 93 stand as they are. Does this meet your views?

On Clause 96—*Banks not bound to see to trust in deposits.*

Mr. ELDERKIN: There are no amendments to clause 96.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on Clause 96?

Mr. MACDONALD (*Rosedale*): I notice that (1) is circled. What was it circled for?

The ACTING CHAIRMAN (*Mr. Clermont*): I understand that a question was asked by Mr. Monteith and Mr. Flemming.

Mr. ELDERKIN: There is no amendment; I beg your pardon, there is a change in Clause 96 from what is in the present act; that is, in subclause (4) which provides that a process in the nature of a seizure shall be effective only as regards a branch in which it is served. Previous to this it was open to doubt whether you would not have to serve every branch of the bank in Canada.

The ACTING CHAIRMAN (*Mr. Clermont*): Mr. Flemming, there was a list given to us by Mr. Cameron which the Committee looked over yesterday and Mr. Monteith mentioned a few numbers, too, and one of them was Clause 96.

Mr. FLEMMING: Could we stand it Mr. Chairman then? I am not familiar with what Mr. Monteith suggested.

The ACTING CHAIRMAN (*Mr. Clermont*): Will the committee agree that we stand 96?

Some hon. MEMBERS: Agreed.

Clause 96 stands.

On Clause 97—*Transmission by death.*

Mr. COMTOIS: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 24 on page 80 thereof and substituting therefor the following:
>
> "the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: Mr. Chairman, the amendment which is the same, and for the same purpose as that for Section 51 (1), namely, this is to give the authority to the bank to obtain such information as they require before making a transmission.

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on Clause 97?

Mr. MACDONALD (*Rosedale*): I think we should put the amendment first, should we not?

The ACTING CHAIRMAN (*Mr. Clermont*): I asked if there were any comments. Then is the amendment accepted by this Committee?

Amendment agreed to.

Clause 97, as amended, agreed to.

On Clause 101—*Conditions applicable.*

Mr. COMTOIS: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 43 to 45, inclusive, on page 82 thereof and substituting therefor the following:
>
> "resolution carried by not less than two-thirds of the votes cast by the shareholders present in person or represented by proxy at the meeting, the"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: Mr. Chairman, there is an amendment here. I explained this at an earlier meeting of the Committee. The amendment refers to voting on amalgamation proposals. Previously votes of two-thirds of the subscribed capital stock of the bank were required in the case of a merger or amalgamation. In view of the restrictions on voting that are included in Sections 52 to 57, it would probably be very difficult to obtain this number of votes. There are many other safeguards such as the approval of the Minister and of the Governor in Council and, I might mention, the Canada Corporations Act requires only a majority vote of shareholders present at the meeting. This amendment requires two-thirds of the votes cast by shareholders present at the meeting. I think it is a sensible arrangement because it would be very difficult in the future, I think, to obtain the majority which is now in effect.

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on this amendment, Mr. Leboe?

Mr. LEBOE: Present in person or represented by proxy?

Mr. ELDERKIN: Yes Mr. Leboe.

The ACTING CHAIRMAN (*Mr. Clermont*): Is this amendment approved by the Committee?

Amendment agreed to.

Clause 101, as amended, agreed to.

Clause 103 agreed to.

On Clause 106—*Return in form of Schedule Q.*

Mr. ELDERKIN: Clause 106 was not in the list, Mr. Chairman, but I do not know why, it is just a return, that is all.

The ACTING CHAIRMAN (*Mr. Clermont*): Mr. Gilbert, do you have any comments on 106? It was not on the list?

Mr. LEBOE: Well, if there is any doubt, Mr. Chairman, why do we not let it stand?

Mr. GILBERT: I understand it was because of the questions that arose on schedule Q.

Mr. ELDERKIN: This would not prevent a change in schedule Q, Mr. Gilbert. This provides only for the return being made, that is all.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it satisfactory?

Mr. GILBERT: I have no objection to it.

The ACTING CHAIRMAN (*Mr. Clermont*): Does 106 carry?

Clause 106 agreed to.

On Clause 117—*Additional information.*

Mr. ELDERKIN: Clause 117 is also not on the list. This is the one which permits the Bank of Canada to require returns from the bank but the bank is not required "to furnish information with respect to the accounts or affairs of any particular person." Again, I do not know why this was not on the list. Well, it is a new principle, I will admit, but it really is putting into legislation what has been the practice for a long time, on a voluntary basis, and as much as anything else, it is for the benefit, if you will, of the banks because the banks have been doing this on a voluntary basis without any authority to do it in the legislation. They do supply the Bank of Canada with a considerable amount of information but not regarding individual accounts.

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on Clause 117? Yes, Mr. Flemming?

Mr. FLEMMING: What I was going to say was, as I understand it, it simply puts in the act what has been the practice previously?

Mr. ELDERKIN: Yes, to a great extent. Some of the banks felt they could not do this and so they sent them to me instead and I sent them to the Bank of Canada.

Clause 117 agreed to.

On Clause 122—*When directors to make calls.*

Mr. COMTOIS: I move

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 11 to 22, inclusive, on page 90 thereof and substituting therefor the following:

"months.

Under other proceedings.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be made in accordance with such Act.

Forfeiture.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank; but the call and any further call thereafter is recoverable from him as if no forfeiture had taken place."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendment is really to a great extent editoral. Paragraphs (g) and (h) of subclause (2) are not relative to subclause (2) at all. Some time along the way these got mixed up. These are properly separate subclauses and the effect of the amendment is to make them into separate subclauses. They are not relative to subclause (2).

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on the suggested amendment? Is the amendement approved?

Amendment agreed to.

Clause 122, as amended, agreed to.

Mr. ELDERKIN: Mr. Chairman, I would like to ask Clause 124 to stand. We may have to look at an amendment on that.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the Committee agreeable that Clause 124 stand?

Some hon. MEMBERS: Agreed.

Clause 124 stands.

On Clause 137—*Statements not signed as required.*

The ACTING CHAIRMAN (*Mr. Clermont*): Any comments on Clause 137?

Mr. ELDERKIN: There is no amendment on it. It was circled by somebody.

Mr. LEBOE: It was Mr. Lambert.

The ACTING CHAIRMAN (*Mr. Clermont*): Mr. Lambert or Mr. Flemming?

Mr. FLEMMING: It was Mr. Monteith, I believe.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it agreeable that we stand Clause 137?

Some hon. MEMBERS: Agreed.

Clause 137 stands.

Mr. MACDONALD (*Rosedale*): I think there may be further discussion on Clause 138. The Chairman indicated to me before he left that he had heard some comments on that.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it agreeable that we stand Clause 138?

Some hon. MEMBERS: Agreed.

Clause 138 stands.

Clause 139 agreed to.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, could I ask that Clause 145 be allowed to stand?

The ACTING CHAIRMAN (*Mr. Clermont*): Is the Committee agreeable that we stand Clause 145?

Some hon. MEMBERS: Agreed.

Clause 145 stands.

On Clause 150—*Acquisition of warehouse receipts, bills of lading, etc.*

Mr. COMTOIS: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 35 on page 98 thereof and substituting therefor the following:
>
> "otherwise authorized by an Act of the Parliament of Canada."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: There is a small amendment here which is a drafting amendment only. On the last line of the clause, instead of saying "authorized by this act.", the draftsmen have suggested "authorized by an act of the parliament of Canada." There may be other acts which could affect this and provision is extended to exempt transactions authorized by any other act of parliament.

The ACTING CHAIRMAN (*Mr. Clermont*): Is the amendment approved?

Amendment agreed to.

Clause 150, as amended, agreed to.

The ACTING CHAIRMAN (*Mr. Clermont*): Clause 151.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I wonder if the Committee would agree to standing that one as well, along with the proposed amendments.

The ACTING CHAIRMAN (*Mr. Clermont*): Is it agreed that we stand Clause 151?

Some hon. MEMBERS: Agreed.

Clause 151 stands.

On Clause 157—*Unauthorized use of title "bank", etc.*

Mr. COMTOIS: I move

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 13 on page 101 thereof and substituting therefor the following:
>
> "against this Act; but this subsection does not apply where such use is required by law and is confined to a statement contained in a prospectus that a corporation is the holder of shares of the capital stock or evidences of indebtedness of a bank."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: There is an amendment to Clause 157, to provide for a requirement in provincial laws. In some cases a prospectus must list the securities owned by the issuing corporation and where the amendment is to take care of this it says it

> —does not apply where such use is required by law and is confined to a statement contained in a prospectus that a corporation is the holder of shares of the capital stock or evidences of indebtedness of a bank.

In some provinces for instance, mutual funds prospectus must state the securities which they own at the time and it would be a violation if they put a bank's name on it at the present time. This is simply to accommodate to provincial law.

The Acting Chairman (*Mr. Clermont*): Any comments on Clause 157(2)? Yes, Mr. Lind?

Mr. Lind: What is the violation, if they own bank shares? If they list the bank it would become a violation.

Mr. Elderkin: That is right. It becomes in effect a technical violation, that is all.

The Acting Chairman (*Mr. Clermont*): The amendment is approved? Clause 157, as amended carries?

Amendment agreed to.

Clause 157, as amended, agreed to.

On Clause 158—*Unlawful transfer of bank stock.*

Mr. Comtois: I move

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out line 15 on page 101 thereof and substituting therefor the following:

"section 53 or subsection (2) of section 56 is guilty of an offence and liable on summary"; and

(b) by striking out line 19 on page 101 thereof and substituting therefor the following:

"violation of any provision of section 53 or subsection (2) of section 56 is guilty of an".

Mr. Macdonald (*Rosedale*): I second the motion.

Mr. Elderkin: The amendment in Clause 158, Mr. Chairman, is in two places; because of the amendments to subclause (2) of Clause 56 we have to include that reference on line 15 and again on line 19. These are the only amendments that are involved. These are penalties for violations and we have to add the penalty for violation of Clause 56 (2).

The Acting Chairman (*Mr. Clermont*): Any comments on the amendment suggested. Amendment carried?

Amendment agreed to.

Clause 158, as amended, agreed to.

On Clause 162—*Coming into force.*

Mr. Comtois: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out clause 162 on page 102 thereof and by substituting therefor the following:

Coming into force.

"162. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

Saving.

(2) Section 6 and this section shall come into force, and section 6 of the *Bank Act*, Chapter 48 of the Statutes of Canada, 1953-54, is repealed, on the day that this Act is assented to."

Commencement of voting restrictions.

(3) Section 54 and subsection (6) of section 56 shall come into force three months after this Act comes into force."

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendment to Clause 162 I might explain. The first one is the standard provision,

—this Act shall come into force on a day to be fixed by proclamation—

The second one provides for the banks to carry on business upon assent of the act but before proclamation. The reason for this is that the act will probably not be proclaimed for as much as up to six weeks after assent is received, because a lot of things have to be done in the nature of statements, getting returns and that information; but this would carry us over the period in which they would be empowered to carry on business under the extension which is presently in force; and subsection (2), in other words, says that it comes into force immediately the act is assented to. The remainder of the act comes into force on proclamation.

Subsection (3) is new, for the purpose of permitting banks to hold shareholders' meetings for the stated period, namely three months, without applying the voting requirement and the requirements of eligibility of voters. The banks have indicated—some of them anyway—that they are going to, as soon as the act is passed, split their shares, and this means that they have to have a shareholders' meeting to do so. It is rather essential that probably they will want to do this as quickly as possible. If one does it they will all want to do it, or most of them will, and this would permit them to carry on under the present rules of the game, if you will, as far as shareholders' meetings are concerned, for a period of three months after the act comes into force. They will not have to, in other words, check out the shareholders as to voting privileges or anything. This is the purpose of the three amendments to Clause 162.

The ACTING CHAIRMAN (*Mr. Clermont*): Is Clause 162 as amended carried?

Amendment agreed to.

Clause 162, as amended, agreed to.

Mr. ELDERKIN: The amendments to schedule A Mr. Chairman, are simply to add the names of two banks that have been incorporated since this bill was first drafted, namely the Bank of Western Canada and the Bank of British Columbia. Their names are actually added by their charter, but in order to complete the picture we put them in here as well.

Mr. COMTOIS: I move

That Bill C-222, An Act respecting Banks and Banking, be amended by inserting at the end of Schedule A thereof, under the appropriate headings, the following:

"Bank of Western Canada	Banque de l'Ouest Canadien	$ 25,000,000	$10 Winnipeg
Bank of British Columbia	Banque de Colombie-Britannique .	$100,000,000	$10 Vancouver"

Mr. MACDONALD (*Rosedale*): I second the motion.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on the amendment to schedule A?

Is schedule A, as amended, carried?

Schedule A as amended agreed to.

Mr. ELDERKIN: Schedule B was not circled; I am sorry.

Mr. LEBOE: Mr. Chairman, it is now 5.45; we have done very well, and I wonder if this would not be a reasonable time to adjourn. All of the other schedules except two are circled.

Mr. MACDONALD (*Rosedale*): If Mr. Leboe could bear with us for a moment, there are a couple of amended schedules here; perhaps we could carry those. Schedules B to L all relate to clause 88 which we have stood, and I think appropriately they should be stood.

Mr. LEBOE: There are only R and S left.

Mr. MACDONALD (*Rosedale*): No, schedules M,N,O and P also have amendments. I wonder if we could tidy this up?

Mr. LEBOE: I am sorry, but I have to leave.

The ACTING CHAIRMAN (*Mr. Clermont*): Are there any comments on the suggestion made by Mr. Leboe?

Mr. LEBOE: I have to leave now.

The ACTING CHAIRMAN (*Mr. Clermont*): I understand it is the thinking of this Committee that we adjourn until 11 o'clock tomorrow morning. Thank you, gentlemen.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 49

THURSDAY, FEBRUARY 16, 1967

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Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

Mr. C. F. Elderkin, Special Adviser, Department of Finance.
Mr. L. Rasminsky, Governor of the Bank of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25758—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,	Gilbert,	McLean (*Charlotte*),
Basford,	Irvine,	Monteith,
Chrétien,	Lambert,	More (*Regina City*),
Clermont,	Latulippe,	Munro,
Coates,	Leboe,	Saltsman,
Comtois,	Lind,	Tremblay,
Flemming,	Macdonald (*Rosedale*),	Valade,
Fulton,	Mackasey,	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, February 16, 1967.
(99)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:15 a.m., this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Chrétien, Clermont, Flemming, Fulton, Gilbert, Gray, Irvine, Laflamme, Latulippe, Leboe, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Wahn (14).

Also present: Mr. Grégoire.

In attendance: Mr. C. F. Elderkin, Special Adviser, Department of Finance.

The Committee resumed consideration of Bill C-222, An Act respecting Banks and Banking.

It was unanimously agreed to revert to clause 36 and Mr. Elderkin was questioned. After further discussion and questioning, it was unanimously agreed that clause 36 be allowed to stand.

Schedule C, D, E, F, G, H, I, J, K, and L were allowed to stand.

On schedules M, N, O, P, and Q

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That Schedules M, N, O, P, and Q be deleted and the following substituted therefor:

SCHEDULE M

(Section 103)

Return of Assets and Liabilities
of the .....Bank
as at .....19.....
(In thousands of dollars)

ASSETS

1.	Gold coin and bullion	$
2.	Other coin in Canada	
3.	Other coin outside Canada	
4.	Notes of and deposits with Bank of Canada	
5.	Government and bank notes other than Canadian	
6.	Deposits with banks, in Canadian currency	
7.	Deposits with banks, in currencies other than Canadian	
8.	Cheques and other items in transit, net	

25758—1½

9. Treasury bills of Canada, at amortized value .....
10. Other securities issued or guaranteed by Canada maturing within three years, at amortized value .....
11. Securities issued or guaranteed by Canada not maturing within three years, at amortized value .....
12. Securities issued or guaranteed by a province, at amortized value
13. Securities issued or guaranteed by a municipal or school corporation in Canada, not exceeding market value .....
14. Securities of other Canadian issuers, not exceeding market value
15. Securities of issuers other than Canadian, not exceeding market value .....
16. Mortgages and hypothecs insured under the National Housing Act, 1954 .....
17. Day, call and short loans to investment dealers and brokers, in Canadian currency, secured .....
18. Day, call and short loans to investment dealers and brokers, in currencies other than Canadian, secured .....
19. Loans to a province, in Canadian currency .....
20. Loans to a municipal or school corporation in Canada, in Canadian currency, less provision for losses .....
21. Other loans in Canadian currency, less provision for losses ....
22. Other loans in currencies other than Canadian, less provision for losses .....
23. Bank premises at cost, less amounts written off .....
24. Securities of and loans to a corporation controlled by the bank ..
25. Customers' liability under acceptances, guarantees and letters of credit, as per contra .....
26. Other assets .....

Total assets ..... $

LIABILITIES

1. Deposits by Canada, in Canadian currency ..... $
2. Deposits by a province, in Canadian currency .....
3. Deposits by banks, in Canadian currency .....
4. Deposits by banks, in currencies other than Canadian .....
5. Personal savings deposits payable after notice, in Canada, in Canadian currency .....
6. Other deposits payable after notice, in Canadian currency .....
7. Other deposits payable on demand, in Canadian currency .....
8. Other deposits, in currencies other than Canadian .....
9. Advances from Bank of Canada, secured .....
10. Acceptances, guarantees and letters of credit .....
11. Other liabilities .....
12. Debentures issued and outstanding .....
13. Capital paid up .....
14. Rest account .....
15. Undivided profits at latest financial year end .....

Total liabilities ..... $

SUPPLEMENTARY INFORMATION

Aggregate amount of loans to directors and firms of which they are members and loans for which they are guarantors $

Amount in currencies other than Canadian included in

Asset 8	Asset 10	Asset 11	Asset 12	Asset 13	Asset 14
$.....	$.....	$.....	$.....	$.....	$.....

Branch returns antedating the last day of the month used in the preparation of this return:

Branch	Date of return

Controlled banking corporations whose assets and liabilities are included in this return .....

SCHEDULE N

(Section 60(2)(a))

Statement of Assets and Liabilities

of the ..... Bank

as at October 31, 19.....

ASSETS

1.	Cash and due from banks	$
2.	Cheques and other items in transit, net	
3.	Securities issued or guaranteed by Canada, at amortized value	
4.	Securities issued or guaranteed by a province, at amortized value	
6.	Day, call and short loans to investment dealers and brokers, secured	
7.	Other loans, including mortgages, less provision for losses	
8.	Bank premises at cost, less amounts written off	
9.	Securities of and loans to a corporation controlled by the bank	
10.	Customers' liability under acceptances, guarantees and letters of credit, as per contra	
11.	Other assets	
		$

LIABILITIES

1.	Deposits by Canada	$
2.	Deposits by a province	
3.	Deposits by banks	
4.	Personal savings deposits payable after notice, in Canada, in Canadian currency	
5.	Other deposits	
6.	Advances from Bank of Canada, secured	
7.	Acceptances, guarantees and letters of credit	
8.	Other liabilities	
9.	Accumulated appropriations for losses	

10. Debentures issued and outstanding .....
11. Capital paid up .....
12. Rest account .....
13. Undivided profits .....

$

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE O

(Section 60(2)(b))

Statement of Revenue, Expenses and Undivided Profits

of the ..... Bank

for the financial year ended October 31, 19.....

Revenue

1. Income from loans ..... $
2. Income from securities .....
3. Other operating revenue .....
4. Total revenue .....

Expenses

5. Interest on deposits and bank debentures .....
6. Salaries, pension contributions and other staff benefits ..
7. Property expenses, including depreciation .....
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience .....
9. Total expenses .....
10. Balance of revenue .....
11. Appropriation for losses .....
12. Balance of profits before income taxes .....
13. Provision for income taxes relating thereto .....
14. Balance of profits for the year .....
15. Dividends .....
16. Amount carried forward .....
17. Undivided profits at beginning of year .....
18. Transfer from accumulated appropriations for losses .....
19. Transferred to Rest account .....
20. Undivided profits at end of year ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE P

(Section 60(2)(c))

Statement of Accumulated Appropriations for Losses

of the ..... Bank

for the financial year ended October 31, 19 .....

1. Accumulated appropriations at beginning of year
   General ..... Tax-paid ..... Total ..... $
2. Appropriation from current year's operations .....
3. Loss experience on loans less provision included in other operating expenses .....

4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market .....
5. Other profits, losses and non-recurring items, net .....
6. Provision for income taxes .....
7. Transferred to undivided profits .....
8. Accumulated appropriations at end of year

General ..... Tax-paid ..... Total ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE Q

(Section 106)

Return of Revenue, Expenses and Other Information

of the ..... Bank

for the financial year ended October 31, 19 .....

(In thousands of dollars)

Revenue

1. Income from loans ..... $
2. Income from securities .....
3. Other operating revenue .....
4. Total revenue .....

Expenses

5. Interest on deposits and bank debentures .....
6. Salaries, pension contributions and other staff benefits .....
7. Property expenses, including depreciation .....
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience .....
9. Total expenses .....

Supplementary Information

10. Provision for income taxes .....
11. Dividends to shareholders .....
12. Loss experience on loans, securities and other investments less provision included in other operating expenses .....
13. Leaving for shareholders' equity and accumulated appropriations for losses .....
14. Capital contributions from shareholders .....
15. Net additions to shareholders' equity and accumulated appropriations for losses .....
16. Allocated to:
    - Undivided profits .....
    - Rest account .....
    - Capital paid up .....
    - General appropriations .....
    - Tax-paid appropriations .....

Schedules M, N, O, P, and Q were carried, as amended.

The Committee then proceeded to consideration of *Bill C-223, An Act respecting Savings Banks in the Province of Quebec.*

Clause 1 was allowed to stand.

Clauses 2 to 5 inclusive were carried.

On clause 6

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 6 be amended by striking out the clause and substituting the following therefor:

"6. Subject to this Act,

(a) if Parliament sits on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the 1st day of July, 1977, and no longer; and

(b) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

The clause was carried, as amended.

Clauses 7 to 9, inclusive, were carried.

On clause 10

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 10 be amended by striking out paragraph (g) on page 4 and substituting therefor the following:

"(g) the remuneration of the chairman of the board, the president, vice-presidents and other directors;"

The clause, as amended, was carried.

Clauses 11 to 15, inclusive, were carried.

On clause 16

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 16 be amended by striking out line 7 on page 6 and substituting therefor the following:

"(2) The directors may elect by ballot from their number a chairman of the board of directors.

(3) A person elected to an office under this"

The clause was carried, as amended.

Clauses 17 and 18 were carried.

On clause 19

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 19 be amended by striking out subclauses (1) and (2) on page 6 and by substituting therefor the following:

"19. (1) The Chairman of the board, if any, or in his absence, the president, or in their absence, a vice-president, shall preside at all meetings of the directors.

(2) Where at any meeting of the directors, the chairman of the board, if any, the president and all vice-presidents are absent, one of the directors present, chosen to act *pro tempore,* shall preside."

The clause was carried, as amended.

On clause 20

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 20 be amended by striking out line 33 on page 6 and by substituting therefor the following:

"fixed by a shareholders' by-law, to be paid to the chairman of the board, the president,"

The clause was carried, as amended.

Clauses 21, 22 and 23 were carried.

On clause 24

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 24 be amended by striking out line 25 on page 8 and by substituting therefor the following:

"City and District Savings Bank is three million"

The clause was carried, as amended.

Clauses 25 and 26 were carried.

On clause 27

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 27 be amended by striking out line 46 on page 9 and substituting therefor the following:

"a date, not earlier than the thirtieth day after the day on"

The clause was carried, as amended.

Clause 28 was carried.

On clause 29

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 29 be amended by striking out lines 39 and 40 on page 10 and subtsituting therefor the following:

"give his post office address and this shall appear in the stock books in connection with"

The clause was carried, as amended.

Clause 30 was allowed to stand.

Clause 31 was carried.

Clause 32 was allowed to stand.

Clauses 33 to 43, inclusive, were allowed to stand.

On clause 44

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 44 be amended by striking out line 35 on page 15 and by substituting therefor the following:

"misson in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

The clause was carried, as amended.

On clause 45

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 45 be amended by

(a) striking out lines 11 and 12 at page 16 and substituting therefor the following:

"right, but does not include an official or corporation performing a function or duty in"

(b) striking out lines 37 to 40, inclusive, at page 17 and substituting therefor the following:

"bank;

(f) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1);

(g) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1); or

(h) both shareholders are associated within the meaning of paragraphs (a) to (g) with the same shareholder."

and

(c) striking out line 33 on page 18 and substituting therefor the following:

"virtue of paragraph (h) of subsection (2) by"

The clause, as amended, was carried.

On clause 46

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 46 be amended by striking out line 21 on page 19 and substituting therefor the following:

"of a share of the capital stock of the bank to any person, including, without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (a) of subsection (1) of section 45,"

The clause was carried, as amended.

On clause 47

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 47 be amended by striking out line 17 on page 22 and substituting therefor the following:

"(c) an official or corporation administering, managing or investing"

The clause was carried, as amended.

Clause 48 was carried.

On clause 49

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 49 be amended by

(a) striking out subclause (2) of clause 49 on page 25;

(b) renumbering subclauses (3) to (8) of clause 49 on pages 25 to 27, inclusive, of the Bill as subclauses (2) to (7), respectively;

(c) striking out line 27 on page 27 and substituting therefor the following:

"(b) an official or corporation administering, managing or investing"; and

(d) striking out the figure (6) in line 34 on page 27 and by substituting therefor the figure "(5)".

The clause was carried, as amended.

Clauses 50, 51 and 52 were carried.

On clause 53

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 53 be amended by

(a) renumbering subclauses (1), (2) and (3) of clause 53 as subclauses (2), (3) and (4), respectively, and

(b) inserting the following as subclause (1) of clause 53

"Financial year."

53. (1) The financial year of the bank shall end on the expiration of the 31st day of October in each year."

(c) striking out the word "and" in line 48 on page 28;

(d) striking out line 8 on page 29 and substituting therefor the following:

"earned in the financial year; and

(c) a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form

specified in Schedule C and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

(e) striking out line 17 on page 29 and substituting therefor the following:

"Schedules A, B and C."

The clause, as amended, was carried.

Clause 54 was carried.

On clause 55

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 55 be amended by

(a) striking out subclause (11) of clause 55 and substituting therefor the following:

"(1) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be submitted by the directors to the shareholders under section 53."

(b) striking out lines 46 and 47 on page 30 and substituting therefor the following:

"of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for the year, and shall include such remarks as they"

The clause, as amended, was carried.

Clauses 56 to 79, inclusive, were carried.

Clauses 80 and 81 were allowed to stand.

Clauses 82 to 85, inclusive, were carried.

On clause 86

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 86 be amended by striking out line 35 on page 45 and substituting therefor the following:

"the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

The clause was carried, as amended.

Clauses 87 to 99, inclusive, were carried.

On clause 100

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 100 be amended by striking out line 36 on page 49 and substituting the following therefor:

"declaration in the form set out in Schedule D, signed"

The clause, as amended, was carried.

Clauses 101 and 102 were carried.

On clause 103

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 103 be amended by striking out lines 3 to 14 on page 51 and substituting the following therefor:

"months.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be in accordance with such Act.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank, but the call and any further call thereafter is recoverable from him as if no forfeiture had taken place."

The clause was carried, as amended.

Clauses 104 to 119, inclusive, were carried.

Clause 120 was allowed to stand.

Clauses 121 to 130, inclusive, were carried.

On clause 131

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That clause 131 be amended by striking out the clause and substituting the following therefor:

"131. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

(2) Section 6 and this section shall come into force and section 6 of the *Quebec Savings Banks Act*, Chapter 41 of the Statutes of 1953-54, is repealed on the day that this Act is assented to.

(3) Section 47 and subsection (5) of section 49 shall come into force three months after this Act comes into force."

The clause was carried, as amended.

On Schedule A

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That Schedule A be amended.

(a) by striking out items 6, 10, 11, 12 and 14 on page 59 thereof and substituting therefor the following:

"6. Securities issued or guaranteed by a province, at amortized value .....
10. Other mortgages and hypothecs, less provision for losses ....
11. Loans otherwise secured, less provision for losses .....
12. Loans without security, less provision for losses .....
14. Bank premises at cost, less amounts written off."

and

(b) by striking out item 2 on page 60 thereof and substituting therefor the following:

"2. Deposits by a province, in Canadian currency ....."

The Schedule, as amended, was carried.

On Schedule B

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That Schedule B be amended by striking out the Schedule and substituting the following therefor:

"SCHEDULE B

(Section 53(2)(b))

Statement of Revenue, Expenses and Undivided Profits

of the ..... Bank

for the financial year ended October 31, 19.....

Revenue	
Income from loans	$
Income from securities	
Other operating revenue	
Total revenue	
Expenses	
Interest on deposits	
Salaries, pension contributions and other staff benefits	
Property expenses, including depreciation	
Other operating expenses, including provision for losses on loans based on five-year average loss experience	
Total expenses	
Balance of revenue	
Appropriation for losses	
Balance of profits before income taxes	
Provision for income taxes relating thereto	

Balance of profits for the year .....
Dividends .....

Amount carried forward .....
Undivided profits at beginning of year .....
Transfer from accumulated appropriations for losses .....

Transferred to Rest account .....
Undivided profits at end of year ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents."

The Schedule was carried, as amended.

On Schedule C

On motion of Mr. Clermont, seconded by Mr. Chrétien,

Resolved,—That Schedule C be amended.

"SCHEDULE C

(Section 53(2)(c))

Statement of Accumulated Appropriations for Losses
of the ..... Bank
for the financial year ended October 31, 19 .....

1. Accumulated appropriations at beginning of year
General ..... Tax-paid ..... Total ..... $
2. Appropriation from current year's operations .....
3. Loss experience on loans less provision included in other operating expenses .....
4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market .....
5. Other profits, losses and non-recurring items, net .....
6. Provision for income taxes .....
7. Transferred to undivided profits .....

8. Accumulated appropriations at end of year
General ..... Tax-paid ..... Total ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents."

and

(b) by striking out the words "SCHEDULE C" on page 62 thereof and substituting therefor the following:

"SCHEDULE D

Declaration Required by Section 100."

The Committee then reverted to clause 1 which was carried.
At 12.15 p.m. the Committee adjourned until 3.45 p.m. this day.

AFTERNOON SITTING
(100)

The Committee resumed at 3:45 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Chrétien, Clermont, Comtois, Flemming, Fulton, Gilbert, Gray, Laflamme, Latulippe, Leboe, Macdonald (*Rosedale*), Tremblay, Wahn (13).

In attendance: Representing the Bank of Canada: Messrs. Louis Rasminsky, Governor; J. R. Beattie, Deputy Governor; L. Hébert, Deputy Governor; G. K. Bouey, Adviser. *And also:* Mr. C. F. Elderkin, Special Adviser, Department of Finance.

The Committee proceeded to consideration of Bill C-190, An Act to amend the Bank of Canada Act.

On clause 1

Mr. Rasminsky was questioned, and the clause was carried.

Clauses 2 to 8, inclusive were carried.

Clauses 9 and 10

The Committee agreed to consider clauses 9 and 10 simultaneously and Mr. Rasminsky was questioned.

At 5:00 p.m., the division bells having rung, the Committee adjourned until 8:00 p.m. this day.

EVENING SITTING
(101)

The Committee resumed at 8:12 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Clermont, Comtois, Flemming, Fulton, Gilbert, Gray, Latulippe, Leboe, Macdonald (*Rosedale*), Mackasey, McLean (*Charlotte*), Saltsman, Tremblay, Wahn (14).

In attendance: The same as at the afternoon sitting, and Dr. P. M. Ollivier, Parliamentary Counsel.

Questioning was resumed on clauses 9 and 10 and clause 9 was carried.

On clause 10

Mr. Fulton moved, seconded by Mr. Flemming, that clause 10 be deleted and the following substituted therefor:

"10. Paragraph (e) of section 19 of the said Act is repealed."

After further discussion and questioning, and the question having been put, the proposed amendment was negatived, on the following division: Yeas, 2; Nays, 7.

Clause 10 was carried.

Clauses 11 to 20, inclusive were carried.

The title and the Bill were carried.

Ordered,—That the Chairman report the Bill without amendment.

The Chairman thanked the witnesses, who were permitted to retire.

At 9:25 p.m. the Committee adjourned until 11:00 a.m., Tuesday, February 21, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

THURSDAY, February 16, 1967.
11.17 a.m.

The CHAIRMAN: Gentlemen, I will now call the meeting to order. We certainly have been making very constructive and adequate progress in our consideration up until now and I gather that this morning we are going to be considering the Quebec Savings Bank Act.

Mr. CLERMONT: Mr. Chairman, are we not going to finish the schedules.

The CHAIRMAN: Yes, we could do that.

Mr. CLERMONT: The intention was to go over the schedules, then move to the Quebec Savings Bank Act.

The CHAIRMAN: All right, Mr. Clermont, I think that would be more orderly. So let us revert to the Bank Act. It is understood, and perhaps Mr. Clermont could confirm this, that as far as the Bank Act is concerned Clauses 39, 75, 76, 88, 89, 90, 91, 92, 93, 96, 124, 137, 138, 145, 151 have been stood. The idea was that we would complete our discussion of those clauses next week.

Mr. CLERMONT: These clauses were stood at the request of different members. For instance Mr. Lambert wanted to discuss clause 88. I think Mr. Wahn wanted to discuss Clause 76.

The CHAIRMAN: Yes; I just wanted to make sure we understood what still remains to be passed.

Mr. CLERMONT: The clauses you enumerate—

The CHAIRMAN: I enumerated the list correctly according to your own recollection?

Mr. WAHN: Mr. Chairman, could I have the clauses you mentioned before Clause 75?

The CHAIRMAN: Before Clause 75?

Mr. WAHN: Before Clause 75.

The CHAIRMAN: The only one I read out was Clause 39.

Mr. WAHN: Mr. Chairman, you will recall when we were on the first day of clause by clause discussion we moved pretty rapidly through them and there was one—Clause 36—I spoke to you about after the meeting, and I asked you if we could possibly revert to that. Could that, by unanimous consent, be added to the list of those which are to be stood.

The CHAIRMAN: Yes, I think that could be done. You have some comments to make on it?

25758—2½

Mr. WAHN: There is some explanation required on the issue of rights. There is also, Mr. Chairman, the clause which we discussed on the executive committee which we thought might require a little further discussion. I have forgotten which clause that was.

The CHAIRMAN: We also stood Clause 1 which would be held to the very end of our consideration of the individual clauses of the bill. We had an initial round of discussion of Clause 1 and we agreed that it be stood. Perhaps it would be convenient, since you are the member who took a particular interest in Clause 36, if we reverted to that with unanimous consent. Perhaps you could make your comment and Mr. Elderkin could reply.

On Clause 36—*Allotment of shares not income.*

Mr. WAHN: It is really just a question of what is the purpose of Clause 36. It seems to say:

Notwithstanding any other Act—

—which I presume is the Income Tax Act—it could include the Income Tax Act—the value of any right issued to shareholders is not subject to income tax.

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): That is correct, Mr. Wahn. This was the intention that the rights issued with respect to any new issues of capital stock of a bank would not be considered income in the hands of the shareholders.

Mr. WAHN: Are rights issued generally in the case of other corporations subject to income tax under the Income Tax Act.

Mr. ELDERKIN: Quite frankly, I cannot answer that question in general.

Mr. WAHN: My question was why an exception would be made in this case. In other words, if rights are taxable generally—and I do not think they are—if they are not taxable then it is not necessary to make the exception. If they are taxable, or if they should become taxable in the future, why should bank shares be in a different position from, say, trust company shares or loan company shares or finance company shares or oil company shares or any other shares?

Mr. ELDERKIN: I think the section was put in here in 1954 or in an earlier revision—I am not sure which—just to clarify the situation as far as the Bank Act was concerned that these were not taxable.

Mr. WAHN: Originally there was some provision which resulted in bank shares being issued at a very substantial discount from market value. Is that correct, Mr. Elderkin?

Mr. ELDERKIN: That is correct. In 1954 the change was made, there of coruse, as far as issue to foreign holders—were concerned,—which is probably not relevant here—but under the present act shares can only be issued at a price equivalent to the capital and rest account value; in other words, to the balance sheet value. Under the provisions in this bill there is no restriction, and one would expect that the price of shares issued would be very much closer to the market.

Mr. WAHN: Under those circumstances I wonder if the reason for the clause has not disappeared. I can understand that when the statute required the rights

to purchase new shares be issued at far below the market value it might well have been unfair to subject shareholders to the tax, but when the banks now have the privilege of issuing shares just like every other company at a price reasonably close to the market price why should bank shares be entitled to this special treatment.

Mr. ELDERKIN: Mr. Wahn, I am not at all sure there is a special treatment. We will have to find out but I do not think rights are taxable as income.

Mr. WAHN: Then why—

Mr. ELDERKIN: Because they wanted to be certain that this was the case as far as the banks were concerned.

Mr. WAHN: But you are putting the bank shares in a different category from trust company shares or loan company shares or shares of any other company. What is the reason for this.

Mr. ELDERKIN: I cannot give you any other reason other than that was the purpose of the section.

Mr. WAHN: I would like to have it stood, Mr. Gray, until we get some explanation of this section.

The CHAIRMAN: Perhaps, Mr. Elderkin, you could consult with the Department of Justice or the Department of National Revenue then you might be able to provide some further information next week when we return to these clauses which have been stood.

Mr. FULTON: Mr. Chairman, may I ask whether the amendments which were put forward by the government or the department were dealt with and approved yesterday?

Mr. ELDERKIN: Mr. Fulton, not all of them because some of the clauses which are stood are clauses in which there are amendments.

The CHAIRMAN: Some of the amendments in this booklet were dealt with as the clauses to which they pertained were called and the Committee approved them. Others were not dealt with because they pertained to one or more of the clauses which I read out as having been stood.

Mr. CLERMONT: For instance, Mr. Chairman, there were amendments to clause 76. Those amendments stood as the clause stood.

Mr. FULTON: I was wondering whether we dealt with the amendment proposed to take account of the situation of Kinross and RoyNat.

Mr. ELDERKIN: No, that was stood.

Mr. FULTON: That was stood?

Mr. CLERMONT: Mr. Fulton, that is clause 76.

Mr. FULTON: The earlier clause was clause 18, was it not?

Mr. CLERMONT: Clause 76 stood.

Mr. FULTON: It seems to me that Clause 18(6) (b) would be involved in this amendment. I am sorry I was not here.

Mr. ELDERKIN: I think this is quite a different matter. One relates to directors and the other relates to shareholders. Mr. Fulton, I do not think that 18(6) (b) does relate to it. I think the two are quite different.

The CHAIRMAN: Mr. Fulton, perhaps you can give this further consideration and raise it if you feel it is necessary when we get to clause 76 and if it is necessary we can revert to the earlier clause.

Mr. Wahn, was there another matter you wished to raise about a clause.

Mr. WAHN: There was the clause dealing with the membership of the executive committee. It was pointed out that there was no provision that the majority of the members of the executive committee should be residents of Canada. The question is raised whether this would not be a desirable provision. I have been trying to find out which clause that is.

Mr. ELDERKIN: It is clause 25.

The CHAIRMAN: Yes, the executive committee is clause 25.

Mr. ELDERKIN: I think a provision along these lines would really have little, if any effect, Mr. Wahn. The only situation where one could imagine that the executive committee would not be composed of a majority of residents would be one, I presume, in which the bank was under the control of foreign interests, and insisted, through their directors, notwithstanding the fact that three-quarters of them have to be residents, that the executive committee should be composed of a majority of non-residents. If you put in a provision that three-quarters of the executive committee would be composed of residents they can exercise exactly the same influence on the executive committee, so I think the matter is rather academic.

Mr. WAHN: I do not feel strongly about it, Mr. Chairman.

The CHAIRMAN: Let us then proceed to the schedules. Schedule A was approved and I think we had agreed on Schedule B previously. The next one is—

Mr. CLERMONT: Schedules M and N.

Mr. ELDERKIN: I am not sure whether Schedule B got approval or not, Mr. Clermont. I do not have a record whether it was voted on or not.

Mr. CLERMONT: No, we stopped at Schedule A.

The CHAIRMAN: Shall Schedule B carry.

Some hon. MEMBERS: Agreed.

Mr. GILBERT: On my schedule I have Schedule B underlined. I think there is a question of Mr. Lambert that, together with Schedule R and Schedule S, they should stand.

Mr. ELDERKIN: No, Schedule B was not on the list which Mr. Lambert gave us.

Mr. GILBERT: I am sorry.

The CHAIRMAN: I am sorry, we should be talking about Schedule C not B. You may recall that—I am just coming to that. We are dealing with so many numbers and letters—Schedule B was adopted when we agreed on a number of clauses. The Schedules we are talking about are C,D,E,F,G,H,I,J,K, and L. These

were requested to be stood by your group, Mr. Fulton. Let us see where we are. We move to Schedule M.

On Schedule M.

Mr. ELDERKIN: Schedule M appears in your amendment, Mr. Chairman, and the changes from the wording on pages 112 and 113 are almost entirely editorial. There are punctuation changes, and so on, but there are no changes in meaning in the schedule.

Mr. GILBERT: I wonder if Mr. Elderkin can tell us whether he or his officials gave any consideration to the brief of Professor Caterina and his changes to schedules M, N, O, and P.

The CHAIRMAN: While you are pondering the answer I think I should ask that Mr. Clermont propose, and Mr. Chrétien second that the schedules in the draft bill listed as M, N, O, P, and Q, be struck out and the new schedules in the book of amendments be substituted in their place. I presume you will formally move this.

Mr. CLERMONT: I move:

> That Bill C-222, An Act respecting Banks and Banking, be amended by striking out Schedules M, N, O, P and Q thereof at pages 112 to 117, inclusive, and substituting therefor the following Schedules:

Mr. CHRÉTIEN: I second the motion.

SCHEDULE M

Return of Assets and Liabilities
of the .....Bank
as at .....19.....
(In thousands of dollars)

ASSETS

1.	Gold coin and bullion	$
2.	Other coin in Canada	
3.	Other coin outside Canada	
4.	Notes of and deposits with Bank of Canada	
5.	Government and bank notes other than Canadian	
6.	Deposits with banks, in Canadian currency	
7.	Deposits with banks, in currencies other than Canadian	
8.	Cheques and other items in transit, net	
9.	Treasury bills of Canada, at amortized value	
10.	Other securities issued or guaranteed by Canada maturing within three years, at amortized value	
11.	Securities issued or guaranteed by Canada not maturing within three years, at amortized value	
12.	Securities issued or guaranteed by a province, at amortized value	
13.	Securities issued or guaranteed by a municipal or school corporation in Canada, not exceeding market value	
14.	Securities of other Canadian issuers, not exceeding market value	
15.	Securities of issuers other than Canadian, not exceeding market value	

16. Mortgages and hypothecs insured under the National Housing Act, 1954 .....
17. Day, call and short loans to investment dealers and brokers, in Canadian currency, secured .....
18. Day, call and short loans to investment dealers and brokers, in currencies other than Canadian, secured .....
19. Loans to a province, in Canadian currency .....
20. Loans to a municipal or school corporation in Canada, in Canadian currency, less provision for losses .....
21. Other loans in Canadian currency, less provision for losses ....
22. Other loans in currencies other than Canadian, less provision for losses .....
23. Bank premises at cost, less amounts written off .....
24. Securities of and loans to a corporation controlled by the bank ..
25. Customers' liability under acceptances, guarantees and letters of credit, as per contra .....
26. Other assets .....

Total assets ..... $

SCHEDULE N

(Section 60(2)(a))

Statement of Assets and Liabilities
of the ..... Bank
as at October 31, 19.....

ASSETS

1. Cash and due from banks ..... $
2. Cheques and other items in transit, net .....
3. Securities issued or guaranteed by Canada, at amortized value
4. Securities issued or guaranteed by a province, at amortized value .....
5. Other securities, not exceeding market value .....
6. Day, call and short loans to investment dealers and brokers, secured .....
7. Other loans, including mortgages, less provision for losses ....
8. Bank premises at cost, less amounts written off .....
9. Securities of and loans to a corporation controlled by the bank
10. Customers' liability under acceptances, guarantees and letters of credit, as per contra .....
11. Other assets .....

$

LIABILITIES

1. Deposits by Canada ..... $
2. Deposits by a province .....
3. Deposits by banks .....
4. Personal savings deposits payable after notice, in Canada, in Canadian currency .....

5. Other deposits .....
6. Advances from Bank of Canada, secured .....
7. Acceptances, guarantees and letters of credit .....
8. Other liabilities .....
9. Accumulated appropriations for losses .....
10. Debentures issued and outstanding .....
11. Capital paid up .....
12. Rest account .....
13. Undivided profits .....

$

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE O

(Section 60(2)(b))

Statement of Revenue, Expenses and Undivided Profits of the ..... Bank for the financial year ended October 31, 19.....

Revenue

1. Income from loans ..... $
2. Income from securities .....
3. Other operating revenue .....
4. Total revenue .....

Expenses

5. Interest on deposits and bank debentures .....
6. Salaries, pension contributions and other staff benefits ..
7. Property expenses, including depreciation .....
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience .....
9. Total expenses .....
10. Balance of revenue .....
11. Appropriation for losses .....
12. Balance of profits before income taxes .....
13. Provision for income taxes relating thereto .....
14. Balance of profits for the year .....
15. Dividends .....
16. Amount carried forward .....
17. Undivided profits at beginning of year .....
18. Transfer from accumulated appropriations for losses .....
19. Transferred to Rest account .....
20. Undivided profits at end of year ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE P

(Section 60(2)(c))

Statement of Accumulated Appropriations for Losses
of the ..... Bank
for the financial year ended October 31, 19 .....

1. Accumulated appropriations at beginning of year General ..... Tax-paid ..... Total	$
2. Appropriation from current year's operations	
3. Loss experience on loans less provision included in other operating expenses	
4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market	
5. Other profits, losses and non-recurring items, net	
6. Provision for income taxes	
7. Transferred to undivided profits	
8. Accumulated appropriations at end of year General ..... Tax-paid ..... Total	$

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE Q

(Section 106)

Return of Revenue, Expenses and Other Information
of the ..... Bank
for the financial year ended October 31, 19 .....
(In thousands of dollars)

Revenue

1. Income from loans	$
2. Income from securities	
3. Other operating revenue	
4. Total revenue	

Expenses

5. Interest on deposits and bank debentures	
6. Salaries, pension contributions and other staff benefits	
7. Property expenses, including depreciation	
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience	
9. Total expenses	

Supplementary Information

10. Provision for income taxes	
11. Dividends to shareholders	
12. Loss experience on loans, securities and other investments less provision included in other operating expenses	
13. Leaving for shareholders' equity and accumulated appropriations for losses	
14. Capital contributions from shareholders	
15. Net additions to shareholders' equity and accumulated appropriations for losses	
16. Allocated to:	
Undivided profits	
Rest account	
Capital paid up	
General appropriations	
Tax-paid appropriations	

Mr. CLERMONT: But, it is only for the amendment, the schedules are not approved.

The CHAIRMAN: No, no. The amendment is actually to strike out schedules in the draft bill and insert new schedules. So that we will save time, we will deal with them all at once.

Mr. ELDERKIN: On your point, Mr. Gilbert, we did give serious consideration to Professor Caterina and his suggestions, and we have discussed these with other chartered accountants—and I happen to be one—and we felt that really we were presenting more information here than had ever been done before by far, and as much information as we think was necessary. I think to go to the detail that Professor Caterina suggested would really present an extremely cumbersome statement, with all due respect to him. These have been discussed, I will assure you, with all of the shareholders' auditors of the banks, and with the banks themselves, and as I mentioned, we are disclosing far more than has ever been done in banking legislation before.

The CHAIRMAN: Do you feel, Mr. Elderkin, that as a result of these amendments, chartered banks will now be in a position similar to other Canadian corporations with respect to disclosure to the shareholders.

Mr. ELDERKIN: I would think far more than most Canadian corporations with respect to disclosure, and on a par with all of the larger banks in the United States, which have been doing this now for several years; not by law, but by request.

(*Translation*)

Mr. CLERMONT: Are we on Schedule M?

The CHAIRMAN: The motion proposes adoption of a whole group of annexes, M, N, O, P. First of all, Schedule M.

Mr. CLERMONT: Mr. Elderkin, on Schedule M, Item 16, Mortgage and Hypothecs Insured Under the National Housing Act of 1954—the sum is to be specified, is it not? But why the sum of conventional mortgages in assets and liabilities? Why not insist on the expenditures and under the conventional mortgage type? You only ask for mortgages under the National Housing Act. Why not for those issued under another system?

(*English*)

Mr. ELDERKIN: It is a very good point Mr. Clermont, and one that received very serious consideration. The reason is that in bank lending a disclosure of what were conventional mortgages, as a separate item, would be rather misleading because in many cases the lending will be on a composite basis, namely that the mortgage will be part of the security and other assets will be used as security, too. We felt it was impossible really, to divide this out except in the cases where there was just, what one might call, a clean mortgage loan, and nothing else. And this would not cover all the mortgages by any means that the banks would be lending on.

The CHAIRMAN: Do you have a supplementary question Mr. Gilbert? Mr. Clermont?

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, on Item 21 for returns of assets and liabilities, you say: "Other Loans in Canadian Currency Less Provision For Estimated Loss". I come back to the question. Could shareholders in the public be informed? What would be the total of consumer loans? This is to be included in the grand total, is it not? Twenty-one? We are on that clause still?

(*English*)

Mr. ELDERKIN: That would be right, normally, yes, they would be in there. Now, we do bring in other returns, Mr. Clermont. At the present time we bring in returns four times a year, on each quarter, and these are published in the Canada *Gazette,* and show the consumer loans.

Mr. CLERMONT: But they are not in the schedules here?

Mr. ELDERKIN: No, but they are published separately from the schedule in another—

Mr. CLERMONT: They are.

Mr. ELDERKIN: And published in the Canada *Gazette.*

(*Translation*)

Mr. CLERMONT: On the same topic, I note loans of Canada and the provinces. Would it not be a good thing to have the same distinction made for loans under Section 21, "Other Loans"? One year, two years, three years, four years?

(*English*)

Mr. ELDERKIN: Well, the reason of the loans to a province in Canadian currency, has no relationship—if you are talking about the loans—to term at all. It is all loans.

(*Translation*)

Mr. CLERMONT: You are right, but for securities?

(*English*)

Mr. ELDERKIN: Oh, well on the securities—you are speaking of securities of Canada—the reason for the division there is entirely for the purpose of dividing them into money market securities and non-money market securities. Securities under three years are considered money market securities; they are used in support of day loans, they are used in—

(*Translation*)

Mr. CLERMONT: Under 25, there is a mention of "Customers Liabilities Under Acceptances, Guarantees, Letters of Credit". Mr. Elderkin, I do not remember what brief was submitted to us, but in a brief we heard from, I think, an economics professor, this gentleman objected to this. He objected to this being "assets and liabilities" because he said it added to assets but changed nothing. If I go by the annual report of a bank for 1966, I see the same sum in assets and liabilities.

(*English*)

Mr. ELDERKIN: It was Professor Caterina, I think, who raised the point that these were contingent assets and liabilities, and he is not entirely correct. Some of these are very definite, and to the extent that they are definite liabilities, the bank is primarily responsible for the payment of them. On the asset side they have a claim from the person or the corporation for whom they have accepted or guaranteed a particular transaction. In many cases this claim has already arisen but has not appeared yet, as far as the bank is concerned. It may be in the hands of another bank just like a covered cheque. The point is that it is perfectly true that some of these are contingent liabilities only, and therefore contingent assets. But some of them are real liabilities and with an offset of real assets. It would be almost impossible to break these out as to which class they should fall in, so therefore we set them up on both sides of the balance sheet.

(*Translation*)

Mr. CLERMONT: My last question,—it relates to M. At the end, you have "Other Assets" and I read:

Amount in other than Canadian Currency Included.

Ten and eleven deal with Canadian securities, Canadian securities. Does Canada have a rather large percentage of securities that are payable in American currency or other currencies?

(*English*)

Mr. ELDERKIN: No; as a matter of fact, I do not know that there are any direct issues of Canada that are now payable in Canadian currency. But, there may be in the future, and we are providing for it. And I think there may be indirect issues that are payable in Canadian currency.

The CHAIRMAN: I note with respect to schedule M, which has to be made to the government, that the Governor in Council can, in fact, amend it.

Mr. ELDERKIN: That is correct, and in the past it has been amended from time to time.

The CHAIRMAN: And the same applies to schedules N, O, and P, which unlike schedule M, are those which compose the annual, and other, statements made available to the shareholders. Do I understand that?

Mr. ELDERKIN: That is right. If you wish to take them separately I might comment on schedule N. The changes here are also editorial to conform with schedule M except for two others. "Assets 1. Gold and coin," is a combination of the first 3 assets in Schedule M, it is just for the sake of brevity in the annual statement. And liability 9. in schedule N, which is, as I say, the annual statement of the bank, shows in the amendment the total of the accumulated appropriations for losses, which will be published as a balance sheet item for the first time; otherwise, the changes are editorial.

The CHAIRMAN: Schedule O?

Mr. ELDERKIN: There have been material changes in schedule O, principally to bring out the two or three major changes; the first one being the last item under expenses, where we have now included in the operations provision for losses on loans based on five-year average loss experience. This is a rather recent development in banking reporting. It has received approval of financial critics, and in many cases is used in some of the banks in the United States at the present time, on the theory that some part of the operating losses on loans should be regarded as a normal expense for the purpose of the financial statement.

The CHAIRMAN: This is the practice in other business firms that engage in credit business?

Mr. ELDERKIN: That is right. The rest of the changes are editorial entirely.

The CHAIRMAN: Are there further questions or comments on schedules M. N. O. P. and Q?

(*Translation*)

Mr. CLERMONT: Concerning P, Mr. Elderkin, is this a completely new schedule?

(*English*)

Mr. ELDERKIN: Schedule P is a completely new schedule, Mr. Clermont. It is in the Bank Act for the first time, and it is a statement of the accumulated appropriations for losses of the banks. In other words, a statement of the inner reserves and also a statement of their profits and losses on securities during the year, and a statement of their loss experience on loans, less whatever is charged out to the annual operations.

(*Translation*)

Mr. CLERMONT: Is this going to meet shareholders' requirements and the requirements on the part of the public?

(*English*)

Mr. ELDERKIN: It is a complete disclosure of the inner reserves, Mr. Clermont, for the first time.

The CHAIRMAN: And I also note, Mr. Elderkin, that schedules N, O and P are also amendable by the Governor in Council, which I presume means that if it appeared desirable to have additional information disclosed, it would not be necessary for a formal amendment of the Bank Act to take place.

Mr. ELDERKIN: That is the purpose. We have done that in the past, and it came in very handy at times when we wanted to add additional information, or changes.

The CHAIRMAN: And you are satisfied that, in general at least, the complaints or criticisms made by financial analysts, and professors of economy and so on, about the lower standard of disclosure for banks, as compared to other institutions, have, in substance, been dealt with?

Mr. ELDERKIN: I would think we are taking the lead here, Mr. Chairman, in many respects.

The CHAIRMAN: So that the banks now will have to disclose at least as much information as they require of their customers before they give their customers a loan.

Mr. ELDERKIN: You ask the banks.

The CHAIRMAN: But you feel that this standard is being met, at least in some reasonable fashion?

Mr. ELDERKIN: Oh, yes, I do, very definitely.

Mr. WAHN: Mr. Chairman, I have one question by way of clarification. These returns are filed with the minister. They are not available to the shareholders generally.

Mr. ELDERKIN: Oh, no, schedules N, O and P, are part of the annual statements to the shareholders. Schedules M, and Q are filed with the minister.

Mr. CLERMONT: Which ones did you say were reported every three months and will appear in the Canada *Gazette*?

Mr. ELDERKIN: Something which falls outside of this act. It is the classification of loans.

The CHAIRMAN: All right. Shall the amendments with respect to schedules M, N, O, P and Q carry?

Amendments agreed to.

Schedules M-Q, inclusive, as amended, agreed to.

Now we have already carried schedules R and S. This means that we have already agreed that the remainder of the Bank Act will stand until next week, and we will move on to Bill No. C-223, an Act respecting Savings Banks in the province of Quebec.

We have a booklet of amendments with respect to this act.

If I am not mistaken, Mr. Elderkin, it will not be possible to deal completely with this act before we complete our study of the Bank Act because there is some similarity.

Mr. ELDERKIN: Yes, there are relative sections. I will name them as I go along, Mr. Chairman.

The CHAIRMAN: All right. I will call the clauses and Mr. Elderkin and members can interrupt at the appropriate time.

Shall Clause 1 carry?

An hon. MEMBER: Do we not stand this clause?

The CHAIRMAN: I just called it in case there are any preliminary comments before we get into the formal discussion.

No preliminary comments. Clause 1 stands until the end?

Some hon. MEMBERS: Agreed.

Clauses 2 to 5, inclusive, agreed to.

The CHAIRMAN: I will just interrupt here.

We will take it as a matter of form and procedure that the amendments will be moved formally by Mr. Clermont and seconded by Mr. Chrétien.

On Clause 6—*Duration of authority to carry on business*

Mr. CLERMONT: I move

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out clause 6 on page 3 thereof and by substituting the following:

Duration of authority to carry on business

"6. Subject to this Act,

(a) if Parliament sits on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the 1st day of July, 1977, and no longer; and

(b) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendment to Clause 6 is similar to an amendment in the Bank Act and extends the powers of the bank until 1977 as compared with 1976 as now appears.

Mr. LAFLAMME: Do I understand, Mr. Elderkin, that all of those amendments are about the same or precisely the same as the other amendments to the Bank Act.

Mr. ELDERKIN: I will name them when they are. This is exactly the same as the Bank Act.

Mr. LAFLAMME: Would it be possible to ask Mr. Elderkin not to repeat what he has already stated.

The CHAIRMAN: That is right. I think that is a very useful suggestion. If it is clear that the amendments are the same as those we have already discussed and adopted I think it will be sufficient if Mr. Elderkin merely indicates this to us so we will only deal with them where the Quebec Savings Bank Act departs from the national Bank Act.

Amendment agreed to. Clause as amended, agreed to.

Clauses 7 to 9, inclusive, agreed to.

On Clause 10—*By-Laws*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out paragraph (g) on page 4 thereof and by substituting therefor the following:

"(g) the remuneration of the chairman of the board, the president, vice-presidents and other directors;"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: There is an amendment to Clause 10, Mr. Chairman, to the effect that the bank will have the power to appoint a chairman of the board. This is in Clause 16 and we will come to it later, but since we are dealing with a remuneration in this Clause, it will have to be amended as well.

Amendment agreed to.

Clause, as amended, agreed to.

Clauses 11 to 15 inclusive, agreed to.

On Clause 16—*Election of officers*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 7 on page 6 thereof and by substituting therefor the following:

Chairman of the board.

"(2) The directors may elect by ballot from their number a chairman of the board of directors.

(3) A person elected to an office under this"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: In Clause 16, Mr. Chairman, there is an amendment to provide for the appointment of a chairman of the board made at the request of the bank.

The CHAIRMAN: It so happens that my book of amendments somehow or other does not have this one.

In any event shall the amendment carry?

Amendment agreed to.

Clause 16, as amended, agreed to.

Clauses 17 and 18 agreed to.

On Clause 19—*Meetings of directors*

Mr. CLERMONT: I move

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out subclauses (1) and (2) of clause 19 on page 6 thereof and by substituting therefor the following:

Meetings of directors.

"19. (1) The chairman of the board, if any, or in his absence, the president, or in their absence, a vice-president, shall preside at all meetings of the directors.

Temporary chairman.

(2) Where at any meeting of the directors, the chairman of the board, if any, the president and all vice-presidents are absent, one of the directors present, chosen to act *pro tempore,* shall preside."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: In Clause 16 there is an amendment to provide for the appointment of a Chairman of the Board.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 19, as amended, agreed to.

On Clause 20—*General powers of directors*

Mr. CLERMONT: I move:

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 33 on page 6 thereof and by substituting therefor the following:
> "fixed by a shareholders' by-law, to be paid to the chairman of the board, the president,"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Clause 20 is the same thing. There is an amendment to provide for the remuneration of a chairman of the board.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 20, as amended, agreed to.

We are now at the section Meetings of Shareholders.

I think we can deal with these in a series.

Clauses 22 and 23 agreed to.

On Clause 24—*Capital stock*

Mr. CLERMONT: I move

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 24 on page 8 thereof and by substituting therefor the following:
> "City and District Savings Bank is three million"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendment is a correction. Mr. Chairman. In the bill it states the authorized capital stock of the Montreal City and District Savings Bank is $2 million. The amendment states the correct amount is $3 million.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 24, as amended, agreed to.

Clauses 25 and 26 agreed to.

On Clause 27—*Notice of offer.*

Mr. CLERMONT: I move:

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 46 on page 9 thereof and substituting therefor the following:
> "a date, not earlier than the thirtieth day after the day on"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: In Clause 27 there is a similar amendment to Clause 33 in the Bank Act.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 27, as amended, agreed to.

Clause 28 agreed to.

On Clause 29—*Stock books.*

Mr. CLERMONT: I move

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out lines 39 and 40 on page 10 thereof and substituting therefor the following:
> "give his post office address and this shall appear in the stock books in connection with"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: It is similar to Clause 35 in the Bank Act which you have passed.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 29, as amended, agreed to.

Clause 30 agreed to.

The CHAIRMAN: Now, we are at the section headed Shares and Calls, Clauses 31 to 36.

Shall this group of clauses carry.

Clauses 31 to 36 inclusive, agreed to.

Now we will move on to the Transfer and Transmission of Shares section.

Mr. ELDERKIN: All of these are similar to the ones in the Bank Act Sections 44 to 51 which were approved yesterday.

Mr. FULTON: Mr. Chairman, in this connection, I did not expect there would be a meeting on Wednesday and therefore was not here. I wanted to raise this point under the Bank Act itself.

I notice that it appears to be optional with the bank whether or not it keeps a register, whether it records transfer of shares in the books of the bank itself. I am wondering why that is. My thought is, would it not be better to delete the power of the bank to provide by bylaw that the transfer of shares need not be recorded on the books of the bank.

Surely, they should be so recorded. I expect they are. I think probably in practice they always are, but I see there is a power to provide by bylaw that they need not be.

Mr. ELDERKIN: Will you give me the reference please? Are you speaking of the Bank Act?

Mr. FULTON: Yes, and these sections here.

Clause 37(1) reads:

> Shares of the capital stock of the bank are transferable in such manner and subject to such conditions as are prescribed by this Act or by by-law.

Mr. ELDERKIN: Then you go on to Clause 38—"The Bank shall keep in Canada a register of shareholders."—

Mr. FULTON: Yes, but is there not—

Mr. ELDERKIN: There is no exemption from that.

Mr. FULTON: Well, look at Clause 39.

> Unless otherwise provided by by-law, no transfer of shares of the capital stock of the bank is valid unless—
> (a) it is made in a register of transfers of the bank;

Mr. ELDERKIN: That is right.

That is only on the transfer. But there must be a register of transfers.

Mr. FULTON: Look at Clause 40.

> Unless under the by-laws of the bank it is unnecessary that transfers of shares of its capital stock be made in the books of the bank—

Mr. ELDERKIN: Well, that is to take care of street stocks. A transfer of ownership can be made outside the banks books.

You will get this, Mr. Fulton, to a great extent in the transfer of street certificates. They may pass through several hands without ever coming back to the bank for registration.

The CHAIRMAN: The term "transfer" or "transferable" refers to transfer of title in a broad sense not merely on the books as such.

Mr. ELDERKIN: That is right.

This is quite common, of course, and particularly with certificate stocks, if you will, namely, street stocks.

Mr. FULTON: There seems to me to be a contradiction between Clause 38, as you say, and Clause 40. Perhaps I do not grasp the significance of the difference that you are speaking of. Could you enlarge on this point.

Mr. ELDERKIN: Well, stocks that are traded, that are so-called street stocks, in other words for which certificates are issued, may be traded on the stock exchange and may pass through three or four or many owners before they are ever brought back for registration in the name of a new owner. Therefore, the bylaw will permit this—the bylaw will permit a transfer without registration.

Mr. MCLEAN (*Charlotte*): Mr. Elderkin, are there two banks that will not allow that?

Mr. ELDERKIN: There are three banks that have book stock, as we call it. That is the Nationale, the Provinciale and the Mercantile. The two savings banks also have book stock, not street stock. The other five have street stock.

Mr. FULTON: It would be possible then, would it not, for shares to be held or to be owned by persons for some considerable time and in some considerable quantity of whose ownership there is no record on the books of the bank.

Mr. ELDERKIN: That is correct. That is bound to be and the same with all other corporations. This is quite so; as long as these are dealt with on a stock exchange, this can happen quite easily.

Mr. FULTON: How then are you going to enforce the provisions of about 25 percent and 10 percent by an individual.

Mr. ELDERKIN: As far as the shares, for instance, that may be in the name of a broker or dealer, are concerned and this is where you would find most of these were being transferred around, without any change in the books of the bank, the bank is required to find out from the dealer whether he is a nominee or an owner in his own right.

Mr. FULTON: That is when he comes to register.

Mr. ELDERKIN: That is when he comes to register, but he cannot vote—

Mr. FULTON: Until he is registered.

Mr. ELDERKIN: No.

The CHAIRMAN: I suppose that applies to individual owners as well.

Mr. ELDERKIN: That is right.

The CHAIRMAN: So the ownership would not really have much meaning unless they attempted to register and then the other clauses would come into effect to prevent the registration of transfer.

Mr. ELDERKIN: That is right.

These sections, as they are repetitions of similar sections in the Bank Act, have been—

Mr. FULTON: I believe they have a particular moment now that we are bringing in—

Mr. ELDERKIN: Yes, they do but they were redrafted with that in mind and also redrafted to make shares more easily transferable on the stock exchange, because there are very heavy dealings in stocks of the banks.

Mr. FULTON: But the fact is that no voting right can be exercized until the register is made. That is really what you are after.

Mr. ELDERKIN: That is right.

The CHAIRMAN: If there is nothing further on this group of clauses, 37 to 43 inclusive, shall they carry.

Clauses 37 to 43 inclusive, agreed to.

On Clause 44—*Transmission by decease*

Mr. CLERMONT: I move:

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 35 on page 15 thereof and by substituting therefor the following:
>
> "mission in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Well, Clause 44 is the same amendment as you passed to Clause 55 (1) of the Bank Act.

Shall the amendment carry?

Amendment agreed to.

Clause 44, as amended, agreed to.

On Clause 45—*Definitions.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by striking out lines 11 and 12 at page 16 thereof and substituting therefor the following:

"right, but does not include an official or corporation performing a function or duty in"

(b) by striking out lines 37 to 40, inclusive, at page 17 thereof and substituting therefor the following:

"bank;

(f) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of sub-paragraph (i) of paragraph (a) of subsection (1);

(g) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (a) of subsection (1); or

(h) both shareholders are associated within the meaning of paragraphs (a) to (g) with the same shareholder."

and

(c) by striking out line 33 on page 18 thereof and substituting therefor the following:

"virtue of paragraph (h) of subsection (2) by"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: This is exactly the same amendment that was passed to Clause 52 of the Bank Act.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 45, as amended, agreed to.

On Clause 46—*Limit on shares held by non-residents.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 21 on page 19 thereof and substituting therefor the following:
"of a share of the capital stock of the bank to any person, including, without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (a) of subsection (1) of section 45."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: It is a similar amendment to Clause 53 of the Bank Act.

The CHAIRMAN: Shall the amendment carry?

Mr. FULTON: I was just wondering whether Clause 46 is not a little bit difficult for the bank if, on the one hand, you permit them—at least, I think, it is incontrovertible—to be traded and sold without registration. How can you enact that the banks shall refuse to allow transfer of a share to a non-resident to be made? I can see the point about being recorded, but how can you—

Mr. ELDERKIN: Well, this is a transfer on their books.

You cannot stop a transfer of ownership if it is a street stock, but you can stop a transfer on the books of the bank.

Mr. FULTON: Does the word "made" apply to, in a register of transfers of the bank or does the word apply to the work "recorded".

Mr. ELDERKIN: That is right, to refuse to allow a transfer. In other words, that is a transfer by the bank.

Mr. FULTON: It really means that the bank shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made in a register of transfers of the bank.

Mr. ELDERKIN: In effect, that is it, yes.

Mr. FULTON: Or recorded in a register of transfers of the bank.

Mr. ELDERKIN: It cannot be made until it is recorded.

Mr. FULTON: My point, however, is it not the word "made". The bank cannot stop a transfer from being made. It can stop it being recorded or being made in its books.

Mr. ELDERKIN: No, but the term is used all through here and in the Bank Act, too, that where the bank has authority to make a transfer or to refuse a transfer it means a transfer in the books.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 46 as amended agreed to.

On Clause 47—*Voting by resident nominees of non-residents prohibited.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 17 on page 22 thereof and substituting therefor the following:
"(c) an official or corporation administering, managing or investing"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: This is the same amendment as in the Bank Bill 54 (3) (C).

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 47, as amended, agreed to.

Mr. WAHN: Mr. Chairman, on a question of procedure; we have stood certain of the clauses of the Bank Act. Is it understood that we are standing the corresponding clauses of this act.

The CHAIRMAN: That is right.

I assume that Mr. Elderkin will indicate to me when we come to the corresponding clause and we will then make sure that they are stood. We will have to revert to them after we have completed our study of the similar clauses in the Bank Act.

Clause 48 agreed to.

On Clause 49—*Definitions.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by striking out subclause (2) of clause 49 on page 25 thereof;

(b) by renumbering subclauses (3) to (8) of clause 49 on pages 25 to 27, inclusive, of the Bill as subclauses (2) to (7), respectively;

(c) by striking out line 27 on page 27 thereof and substituting therefor the following:

"(b) an official or corporation administering, managing or investing"; and

(d) by striking out the figure (6) in line 34 on page 27 thereof and by substituting therefor the figure "(5)".

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: These are really similar to the ones in the Bank Act, too. The difference is that the first amendment, "by striking out subclause (2) of Clause 49", is new because it was found that subclause (2) did not apply to the savings banks at all and so this is simply a removal of that; the other changes are editorial changes, paragraphs (b) and (d) of the amendment are ancillary to striking out 49 (2).

Item (c) of the amendment is similar to the one that has been passed in the Bank Act, namely it relates to shareholding of provincial agencies. The rest of it relates entirely to the fact that you are striking out a subclause altogether as not being relevant to the savings banks.

The CHAIRMAN: Anything further?

Amendment agreed to.

Clause 49, as amended, agreed to.

Clauses 50 to 52 inclusive agreed to.

On Clause 53—*Statement required at annual general meeting.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by renumbering subclauses (1), (2) and (3) of clause 53 thereof as subclauses (2), (3) and (4), respectively, and

(b) by inserting the following as subclause (1) of clause 53 thereof:

"Financial year."

53. (1) The financial year of the bank shall end on the expiration of the 31st day of October in each year."

(c) by striking out the word "and" in line 48 on page 28 thereof;

(d) by striking out line 8 on page 29 thereof and substituting therefor the following:

(c) "earned in the financial year; and a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form specified in Schedule C and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

(e) by striking out line 17 on page 29 thereof and substituting therefor the following:

"Schedules A, B and C."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: The amendments here are the same as in the Bank Act. The first amendment provides for setting a uniform financial year, the same as Clause 60, subclause (1) of the Bank Act. Subclause (3) is the same as an amendment to the Bank Act, Clause 62(c). In other words it is bringing the annual and other statements into the same requirements as in the Bank Act.

The CHAIRMAN: Shall the amendment to Clause 53 carry?

Amendment agreed to.

Clause 53, as amended, agreed to.

Clause 54 agreed to.

On Clause 55—*Auditors.*

Mr. CLERMONT: I move;

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by striking out subclause (11) of clause 55 thereof and substituting therefor the following:

"(11) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be submitted by the directors to the shareholders under section 53."

(b) by striking out lines 46 and 47 on page 30 thereof and substituting therefor the following:

"of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for the year, and shall include such remarks as they"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Clause 55 relates to the responsibilities of the auditors with respect to the annual statements and the amendments are the same as in Clause 63 (12) and (13) of the Bank Act.

The CHAIRMAN: Shall the Amendment carry?

Amendment agreed to.

Clause 55, as amended, agreed to.

Mr. FULTON: Mr. Chairman, I am going to raise a procedural point again. Clause 39 of the main bank bill stood; that is dealing with shares and calls, and I do not think we stood this corresponding clause in the Quebec Savings Bank bill. Have we?

Mr. ELDERKIN: It would be Clause 32 in this bill. I am sorry; that is right. I marked it for a bank Act stand and I did not call it.

The CHAIRMAN: By unanimous consent then Clause 32 stands and we rescind our previous passage of it. Clause 32 stands.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Thank you Mr. Fulton. Now we move on to the section headed "Inspection." Shall the group of clauses under this heading carry?

Clauses 56 to 77, inclusive, agreed to.

Mr. FULTON: Is there any relationship to clause 75?

Mr. ELDERKIN: There is no relationship between this and Clause 75 in the bank bill. They are completely separate powers, Mr. Fulton.

Mr. FULTON: Is there a provision in the Quebec act corresponding to Clause 75 of the bank act bill?

Mr. ELDERKIN: Yes. To some extent, Clauses 71 and 72 correspond to parts of Clause 75 in the bank bill.

Mr. FULTON: That stood, did it not?

Mr. ELDERKIN: It stood, I think, for Clause 75 (2) (g). I do not think there is anything in here that has any direct relationship to Clause 75.

Mr. WAHN: Mr. Chairman, I note that Clause 30 of this bill corresponds to Clause 36 of the bank bill which is the one we stood earlier today, so I wonder if we could add that?

The CHAIRMAN: Clause 30 of the Quebec Savings Banks bill you are suggesting corresponds to Clause 36 of the bank act bill which we agreed to stand: so we will also by unanimous consent rescind our previous decision and have Clause 30 stand as well in the Quebec Savings Bank bill. Now, we have carried a group of Clauses 73 to 77 inclusive under the heading Security.

We move on to the heading "Real Property," Clause 78; shall Clause 78 carry?

Clauses 78 and 79 agreed to.

The CHAIRMAN: Clauses 80 and 81 should stand.

Some hon. MEMBERS: Agreed.

Clauses 80 and 81 stand.

Clauses 82 and 83 agreed to.

Mr. ELDERKIN: Clause 84 should stand.

Clause 84 stands.

Clause 85 agreed to.

On Clause 86—*Transmission by death.*

Mr. CLERMONT: I move:

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 35 on page 45 thereof and substituting therefor the following:
>
> "the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: It is the same amendment as in Clause 97 of the bank act bill.

Amendment agreed to.

Clause 86, as amended, agreed to.

Clause 87 agreed to.

Clauses 88 to 99, inclusive agreed to.

On Clause 100—*Declaration to be annexed.*

Mr. CLERMONT: I move:

> That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out line 36 on page 49 thereof and substituting therefor the following:
>
> "declaration in the form set out in Schedule D, signed"

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: It is simply an amendment changing the reference to Schedule B to Schedule D, it is editorial only.

Amendment agreed to.

Clause 100, as amended, agreed to.

Clauses 101 and 102 agreed to.

On Clause 103—*When directors to make calls.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out lines 3 to 14 on page 51 thereof and substituting therefor the following:

"months.

When winding-up proceedings taken.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be in accordance with such Act.

Failure to pay call.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank, but the call and any further call thereafter is recoverable from him as if no forfeiture had taken place."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: It is the same amendment as Clause 122, subsection (2) of the Bank act bill which is passed.

Amendment agreed to.

Clause 103, as amended, agreed to.

Clauses 104 and 105 agreed to.

Clauses 106 to 119, inclusive, agreed to.

The CHAIRMAN: Clause 120 stands.

Mr. CLERMONT: This Clause corresponds to what clause of the Bank Act Bill?

Mr. ELDERKIN: Clause 151, Mr. Clermont.

Clauses 121 to 130, inclusive, agreed to.

On Clause 131—*Coming into force.*

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out clause 131 on page 58 thereof and by substituting therefor the following:

Coming into force.

"131. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

Saving.

(2) Section 6 and this section shall come into force and section 6 of the *Quebec Savings Banks Act*, Chapter 41 of the Statutes of 1953-54, is repealed on the day that this Act is assented to.

Commencement of voting restrictions.

(3) Section 47 and subsection (5) of section 49 shall come into force three months after this Act comes into force."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: This amendment is exactly the same as the amendment to Clause 162 in the bank act bill.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Clause 131, as amended, agreed to.

Now we move to the Schedules.

On Schedule A.

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by striking out items 6, 10, 11, 12 and 14 on page 59 thereof and substituting therefor the following:

"6. Securities issued or guaranteed by a province, at amortized value .....
10. Other mortgages and hypothecs, less provision for losses ....
11. Loans otherwise secured, less provision for losses .....
12. Loans without security, less provision for losses .....
14. Bank premises at cost, less amounts written off."

and

(b) by striking out item 2 on page 60 thereof and substituting therefor the following:

"2. Deposits by a province, in Canadian currency...

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: There are amendments, Mr. Chairman, to Items 6, 10, 11, 12 and 14. They are mostly editorial. The first one, if you want me to detail them, is simply striking out "of Canada" after "province" because it is reduntant.

In 10, it is the same—changing the title to the same as in the bank act bill and 12, the same as in the bank act bill, and 14, the same as in the bank act bill. On the liabilities side, on term 2 we strike out "of Canada" after "province" as being redundant.

(*Translation*)

The CHAIRMAN: Mr. Clermont?

Mr. CLERMONT: Mr. Chairman, I notice in schedule "A" the two groups of mortgages and hypothecs are to be reported, 9 and 10. 9 and 10 under "Assets" in Schedule "A".

(*English*)

Mr. ELDERKIN: This is correct. There is a difference here in the operation, Mr. Clermont. In the savings banks their mortgage loans must be what they call clean mortgage loans, and therefore, we can set it up as a separate item, and it has been that way for the last two amendments of the act, since 1944.

The CHAIRMAN: They are not security for commercial loans?

Mr. ELDERKIN: They have no commercial loans.

The CHAIRMAN: Shall the amendment to Schedule A carry?

Amendment agreed to.

Schedule A, as amended, agreed to.

Mr. FULTON: There was an amendment to Schedule A in the main Bank Act bill that does not appear to be affected in the amendments to Schedule A in the Quebec Savings Bank bill. Under the supplementary information, Mr. Elderkin, should it be the same?

Mr. ELDERKIN: No. It is not necessary, because these people have nothing but Canadian currency. They deal entirely with Canadian currency, except in deposits. They may have some deposits.

Mr. FULTON: And controlled banking corporations?

Mr. ELDERKIN: No controlled banking corporations; none.

On Schedule B.

Mr. CLERMONT: I move:

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended by striking out Schedule B thereof and substituting therefor the following:

"SCHEDULE B

(Section 53(2)(b))

Statement of Revenue, Expenses and Undivided Profits
of the ..... Bank
for the financial year ended October 31, 19.....

Revenue	
Income from loans	$
Income from securities	
Other operating revenue	
Total revenue	
Expenses	
Interest on deposits	
Salaries, pension contributions and other staff benefits	
Property expenses, including depreciation	
Other operating expenses, including provision for losses on loans based on five-year average loss experience	
Total expenses	
Balance of revenue	
Appropriation for losses	
Balance of profits before income taxes	
Provision for income taxes relating thereto	
Balance of profits for the year	
Dividends	
Amount carried forward	
Undivided profits at beginning of year	
Transfer from accumulated appropriations for losses	
Transferred to Rest account	
Undivided profits at end of year	$

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Schedule B is amended to conform with the similar schedule in the Bank Act bill, Schedule O.

Amendment agreed to.

Schedule B, as amended, agreed to.

On Schedule C.

Mr. CLERMONT: I move

That Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by inserting immediately before Schedule C on page 62 thereof, the following:

"SCHEDULE C

(Section 53(2)(c))

Statement of Accumulated Appropriations for Losses of the ..... Bank for the financial year ended October 31, 19 .....

1. Accumulated appropriations at beginning of year
   General ..... Tax-paid ..... Total ..... $
2. Appropriation from current year's operations .....
3. Loss experience on loans less provision included in other operating expenses .....
4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market .....
5. Other profits, losses and non-recurring items, net .....
6. Provision for income taxes .....
7. Transferred to undivided profits .....

8. Accumulated appropriations at end of year
   General ..... Tax-paid ..... Total ..... $

Note: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents."

(b) by striking out the words "SCHEDULE C" on page 62 thereof and substituting therefor the following:

"SCHEDULE D

Declaration Required by section 100."

Mr. CHRÉTIEN: I second the motion.

Mr. ELDERKIN: Schedule C is amended to conform with Schedule P in the Bank Act bill. It is the same as Schedule P in the Bank Act bill, as amended.

The CHAIRMAN: Shall the amendment carry?

Amendment agreed to.

Schedule C, as amended, agreed to.

The CHAIRMAN: We are now on Item 1. We should perhaps pause for a moment and make certain we have stood everything we should stand with

respect to any interrelationship between the Bank Act bill and the Quebec Savings Bank Act bill.

Mr. ELDERKIN: We are standing Clause 30; we are standing Clause 32.

Mr. CLERMONT: Clause 32 will correspond to what Clause in the Bank Act bill?

Mr. ELDERKIN: Clause 39.

The CHAIRMAN: And 30 corresponds to—

Mr. ELDERKIN: And 30 corresponds to 36. We are standing clauses 80 and 81, corresponding to sections 90 and 93 of the Bank Act Bill. We are standing clause 84 corresponding to section 96 of the Bank Act bill. We are standing clause 120 corresponding to section 151 of the Bank Act bill. That is all, Mr. Chairman.

The CHAIRMAN: Are there any further questions or comments at this stage on Item 1. If there are not, I will ask if Item 1 carries.

Clause 1 agreed to.

Does the title carry?

I am not going to carry the whole bill. I was not going to ask if the bill as amended carries, but if as a matter of procedure it is felt that to carry the title is going too far, I shall not ask that it carry. As far as I am concerned it is a matter of agreeing to the short title of the bill. There is no doubt about that, is there? That is all I had in mind, really.

Mr. CLERMONT: Mr. Chairman, this afternoon will it be the Bank of Canada?

The CHAIRMAN: Yes, that is right. I would suggest that since we have continued to make excellent progress it would be in order for us to adjourn at this point and begin our consideration, clause by clause, of the amendments to the Bank of Canada Act.

Mr. CHRETIEN: Will we be able to make some comments on clauses 32 and 39 this afternoon?

Mr. ELDERKIN: Of this bill or of the Bank of Canada bill?

Mr. CHRETIEN: No, of this bill, the savings bank bill.

The CHAIRMAN: Clause 32?

Mr. CHRETIEN: Clause 32 and 39.

The CHAIRMAN: No, they were stood.

Mr. CHRETIEN: In order to complete the bill today, we want to complete it as soon as possible.

The CHAIRMAN: Well, we cannot complete either bill today, although we would all like to if we could. We could dispose of these two clauses, 30 and 32 of this bill.

Mr. ELDERKIN: I cannot do anything with them. These are ones that were stood in the Bank Act bill too.

Mr. CHRETIEN: Perhaps you could give us a reply this afternoon.

The CHAIRMAN: I think that what Mr. Chretien means is that if Mr. Elderkin can provide further information to satisfy the members who have asked that those groups of clauses to stand we could dispose of them this afternoon.

Mr. CHRETIEN: Yes.

The CHAIRMAN: And perhaps save some time for discussion on the other clauses when we resume our consideration of the Bank Act bill next week. I think that is what you had in mind.

Mr. ELDERKIN: Do you wish to try to do this before you hear the Bank of Canada reference?

The CHAIRMAN: Well, if you have the information—

Mr. ELDERKIN: Well, I do not know but I will try.

The CHAIRMAN: If Mr. Elderkin is able to consult his other officials and supply the information we will try and deal with the clauses I have just mentioned. If not, we will deal with them when we meet next week to conclude our consideration of the Bank Act bill.

This meeting is suspended until 3.45 p.m. this afternoon.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, we will resume our sitting. I believe Mr. Clermont has some general questions which he wants to complete from the last time we had the Governor of the Bank of Canada with us and we can deal with this informally until we are in a position actually to begin considering the bill.

(*Translation*)

Mr. CLERMONT: There are two or three members and myself who wished to put questions in regard to this topic. Among other things, Mr. Rasminsky, under section 18 of the Bank of Canada Act the Bank must, at all times, make public the minimum rates of interest at which it is ready to grant loans and advances. Is the present rate not 5 per cent?

(*English*)

Mr. RASMINSKY: We are required to publish the rates at which we make advances to banks. Yes, we do that. It is announced—the rate is publicly announced from time to time. It was announced most recently on January 27, I believe.

Mr. CLERMONT: I believe it was January 28.

Mr. RASMINSKY: Yes, January 28. The rate was reduced from $5\frac{1}{4}$ per cent to 5 per cent; that is, the minimum rate.

(*Translation*)

Mr. CLERMONT: Mr. Rasminsky, was this rate reached following consultations between the directors of the Bank of Canada and the Minister of Finance, or was this a decision that was reached by yourself and officers?

(*English*)

Mr. RASMINSKY: It is a decision which is taken by the Governor after such consultations as he finds it appropriate to make from time to time. The character of those consultations has varied from time to time. Sometimes, on occasions, it is

necessary to act between meetings of the directors of the Bank of Canada. That was the case on this occasion; the directors of the Bank of Canada were meeting on February 13, and it was desirable to act before that. It was, however, possible on this occasion to discuss the matter with the executive committee of the bank which meets weekly. Once the bank has formed a view that the bank rates should be changed there has always been discussion with the Minister of Finance, and on each occasion when, during the period I have been Governor —which is the only period I have knowledge of—I have informed the Minister of Finance that it would be my intention to change the bank rate, the Minister—and I have discussed the matter with him and explained the reasons for having formed that view—has reached the conclusion that the action was one which was appropriate in the circumstances.

(*Translation*)

Mr. CLERMONT: Following my request, I am basing my questions on recommendations by the Porter Commission in regard to the Bank of Canada. On page 544, of this voluminous report, the recommendation is found that the Directors of the Bank of Canada have greater authority granted them, be consulted more frequently and share more actively in the administration of the affairs of the Bank of Canada. I note that in bill C-190, some suggestions and recommendations of the Porter Commission are to be carried out and others not. That is the reason behind some of my questions. My question about the interest rate arises from page 544 of the Porter Report. The Commission recommended that Directors play a greater role in decision-taking and administration of the Bank in monetary matters. Is that the case?

(*English*)

Mr. RASMINSKY: I would like to see the precise words of the Porter Commission on that subject.

(*Translation*)

The CHAIRMAN: We are now in a position where we are acting in an official capacity, and we perhaps might agree that this discussion is on Item 1.

(*English*)

And we will be in agreement that I called clause 1 and we will proceed on that basis. We agree on this unanimously.

On clause 1—*Short title.*

Mr. CLERMONT: Mr. Rasminsky, if you refer to pages 544, 545, and 546 of the Porter Royal Commission Report—

Mr. RASMINSKY: That is what I am looking at. I would like to find the direct reference to the recommendations as regards monetary policy.

Mr. CLERMONT: I will read page 544 of the Porter Royal Commission which states:

> —we believe that the legislation should explicitly impose the duty to maintain close and continuing contact and assure the Governor access to the Minister as an adviser on government financial policy.

I think this was carried out by clause 6 of the present Bill No. C-190.

Mr. RASMINSKY: Yes, that is correct.

Mr. CLERMONT: If you refer to page 545 you will see that the Commission proposes a more active role for the board of directors of the bank, in addition to performing a number of housekeeping functions, to ensure the efficiency of the bank. The commission states:

> A more important function of the directors, however, is that of appointing staff, seeing that salaries are reasonable, ensuring that the proper personnel is recruited—

—In our view, however, the most important of the board's functions is to accept collectively the final responsibility for the management and policies of the Bank—subject to the Minister's right of directive.

Mr. RASMINSKY: Yes. I would say, Mr. Clermont, that the conduct of the bank's operations as regards their responsibility for monetary policy is fully in line with the suggestions of the Porter Commission. The directors of the bank meet several times a year. At each of the meetings I give the directors of the bank a very complete and detailed account of the monetary operations of the bank since the last meeting. Putting that in the perspective of the economic developments, I tell the directors of the bank what the over-all objectives of monetary policy are and I provide the directors of the bank with an opportunity to comment on our monetary operations and to express views regarding the correctness or the propriety of the monetary objectives in the light of the economic circumstances. I believe there is, therefore, a collective sharing of responsibility for monetary policy on the part of the directors of the bank. If they were not satisfied with the monetary policy which had been recently followed, or if they were of the opinion that I was not looking at the economic situation in the right way, they are provided with the opportunity at the regular board meetings of indicating these views. In the nature of the thing the conduct of monetary operations is necessarily a day to day affair which has to be carried out by the management of the bank.

So much for monetary policy. On the other matters referred to by the Porter Royal Commission, that is, to see that the business and administrative procedures are sensible and efficient; that expenses are well controlled; that our staff recruitment policies are adequate to the needs of the bank, and so on, the board takes a very helpful and detailed interest in those matters which they show not only at board meetings but also in the fact that there are standing committees of the directors which meet from time to time as required between board meetings and concern themselves in detail with these administrative matters.

I would say, firstly, that we are conducting our affairs along the lines suggested by the Porter Commission and, secondly, I would add that the directors of the bank provide an enormous amount of help to me and to the management of the bank in the conduct of our affairs.

Mr. CLERMONT: Mr. Rasminsky, the week the bank announced its new rate from 5¼ per cent to 5 per cent—the same week or the day before—a New York bank—The Chase Manhattan Bank—announced a new rate too on its prime loans.

Mr. RASMINSKY: Yes, sir.

Mr. CLERMONT: According to a press release from New York "it was decided the cut effective today, could trigger lower interest across the country". Did this come true or not?

Mr. RASMINSKY: I do not know whether the decision of the New York banks to cut their prime rates was influenced by our decision to reduce the Bank rate in Canada. All that I know is that their decision to cut their rate had no influence on our decision at all.

Mr. CLERMONT: I know that but what I mean, Mr. Rasminsky is this: I think theirs appeared in the Ottawa *Citizen* on January 27, dated from New York. According to that press release there was an impression in the financial world that this cut by the Chase Manhattan Bank would be a trigger for a lower rate of interest through the United States? Do you think this will materialize?

Mr. RASMINSKY: Through the United States?

Mr. CLERMONT: Yes.

Mr. RASMINSKY: No. I would say, Mr. Clermont, that the reduction in the prime rate of the American banks reflects the easing in credit conditions that have already taken place in the United States. It did not initiate anything; it reflected something. At the present time there is a curious situation with regard to the prime commercial rate in the United States, in that most of the banks reduced their prime rate from 6 per cent to $5\frac{3}{4}$ per cent but one bank—a large bank, and I had the impression that it was in fact the Chase Manhattan Bank—reduced its rate from 6 per cent to $5\frac{1}{2}$ per cent, so that at the present time you have a rather unusual situation in that different New York banks are charging different prime rates; normally there is a uniform rate.

Mr. CLERMONT: You mentioned it reflected an easing of credit in the United States. Do we have the same reaction in Canada.

Mr. RASMINSKY: Yes, there has in fact been quite a substantial decline in the market rates of interest in Canada over the course of the last couple of months. These market rates of interest fluctuate from day to day and I would not want to be too precise as to what they are. But if one takes—for example, if one starts at the Treasury bill rate, going back to last November, the average rate of interest on government of Canada 90 day or 3 months Treasury bills was just under $5\frac{1}{4}$ per cent; it was about 5.20 per cent. The rate at the tender today was 4.61 per cent; that is, a decline of 60/100 of one per cent, something more than half of one per cent on the yield on Treasury bills. If one thinks of the long-term interest rates—going back to December—the average yield on long-term government of Canada securities was just under 6 per cent. It was about 5.90 per cent, while a couple of days ago it was down to about $5\frac{1}{2}$ per cent—it may be a bit above that now. So there has in fact in the past couple of months been a fair decline in the yield. This has been reflected also in the yields on provincial securities and corporate securities in new issues that have come out in the course of this year, particularly in the last few weeks. They have come out at lower rates than the rates which prevailed a couple of months ago.

Mr. CLERMONT: Mr. Rosminisky, if parliament gave the power to the chartered banks to make convention loans, can the mortgages be accepted as collateral by the Bank of Canada, if the banks want to apply for short-term loans?

Mr. RASMINSKY: I must say that I regard the question as a very hypothetical one. We would certainly ordinarily expect loans to be on the basis of government securities. But so far as our powers are concerned, under Section 18, subsection (1), paragraph (h) of the present Bank of Canada Act—this is not being substantially amended in the bill before the Committee—we can make loans and advances for periods not exceeding six months to chartered banks, to banks to which the Quebec Savings Bank Act applies, on the pledge of a wide variety of securities that are enumerated in the act. Among the securities which are enumerated are mortgages or hypothecs so that legally the Bank of Canada has the power to make an advance to a chartered bank or a bank incorporated under the Quebec Savings Bank Act against the security of a mortgage.

(*Translation*)

The CHAIRMAN: I have just been informed by the clerk that your question period is over.

(*English*)

Mr. CLERMONT: All right, Mr. Chairman, I will ask the other questions on the clauses in question.

The CHAIRMAN: Do we have any further initial comments or questions on clause 1. Perhaps it would not be misinterpreted if I mention at this point that we are very fortunate to have the Governor with us again at this time. He must like to visit with us and discuss these matters of national policy. At the same time, he has been with us on a number of occasions in the past in the course of our general public hearings on the legislation referred to us by parliament. Our aim now is to discuss and, if possible, vote on this bill clause by clause. Perhaps the nature of questions and comments which are to be posed might be considered in the light of our particular function at this time.

Mr. LEBOE: Mr. Chairman, as you know, I caught up with a virus which took me out of circulation for over two weeks and I was not able to be in the Committee. There are several questions I would like to pose to the Governor, Mr. Chairman, if I may. The first question I would like to ask, and this is for clarification, is what is the relation between the policy and the governing of the Industrial Development Bank and the Bank of Canada itself; the Industrial Development Bank being a child of the Bank of Canada. What relationship is there in policy making between the Industrial Development Bank and the Bank of Canada. How are they tied in?

Mr. RASMINSKY: The Governor of the Bank of Canada is ex officio the President of the Industrial Development Bank. The board of directors of the Industrial Development Bank is ex officio those people who are named as directors of the Bank of Canada. The Bank of Canada provides certain services to the Industrial Development Bank—services regarding staff and management of an administrative sort, so there is an organizational link between them. But the Industrial Development Bank is operated as quite a separate institution from the Bank of Canada.

Mr. LEBOE: As the Governor of the Bank of Canada you have this interrelationship, which is ex officio, as you say. At the same time it brings with it, certainly I would think, some measure of responsibility and a sort of keeping a weather eye on the Industrial Development Bank. The thing I am interested in is

the very, very high rate which the Industrial Development Bank is charging those who are borrowing from it at this particular time. It seems to me that it is completely out of proportion. Now, how do you as the Governor of the Bank of Canada view, for instance, 8½ per cent interest charges? I am thinking of the economic development of Canada. Canada is a young country and needs a tremendous amount of economic development. The people who need this service, need these credit arrangements, find themselves in a position where they have to pay such exhorbitant interest rates as 8½ per cent.

Mr. RASMINSKY: Under the terms of the Industrial Development Bank Act, the bank is not permitted to make loans where the credit is available elsewhere under reasonable terms and conditions. The Industrial Development Bank has taken the position that the over-all credit conditions prevailing in the country, must be regarded by it as reasonable, and it is supposed to be, in a certain sense, a lender of last resort for its applicants. If any applicant can raise the money from a conventional lender, then the Industrial Development Bank should not, under the instructions under which it is operated in parliament, make the loan at all. If conventional lenders, in the prevailing economic climate, are charging 7½ or 8 per cent for mortgage loans, it provides a certain protection, a certain assurance, that the Industrial Development Bank will not be making loans which would be available from conventional lenders, if its rate is somewhat higher than the rate charged by conventional lenders.

Mr. LEBOE: I have a great deal of difficulty in my mind relating this position to the testimony that we had here, and the changes that we are making now in the amendments that are coming up in the Bank Act regarding RoyNat and Kincross et cetera. The argument there—and I thought it was a very sound one—was that there was a place in the financial field for these people. Now, it is very hard for me to relate the position of the Industrial Development Bank and their activities in regard to this when they say, "well we can charge 8½ per cent because these people cannot get a conventional lender." Now, say a person wanted to borrow $250,000; who would that conventional lender be? Would it be RoyNat, Kinross or would it be some other—

Mr. RASMINSKY: It could be an insurance company, it could be a trust company.

The CHAIRMAN: This is term lending?

Mr. RASMINSKY: Yes; all Industrial Development Bank lending is term lending.

Mr. LEBOE: The evidence we had here was that you would not be able to float debentures profitably under a million dollars. That would be the floor, according to the evidence given before this Committee. It does seem to me that—really I was asking you whether you think that this is a reasonable situation, where the individual actually has not got access really to a conventional lender, in many cases, although his position financially as far as productivity and ability to handle the proposition is concerned, is in A.1 condition? The geographical location may be such that what you call conventional lenders may not be interested, and this is happening all the time, not because of the individual or the prospectus, but because of the geographical location of this particular firm or its operations. I am very much concerned about this, because I come from the northern part of a province where we are running into this type

of thing right along. It does seem to me that the Industrial Development Bank is not being realistic in charging this type of interest rate in places where the difficulty is perhaps just the geographical location rather than anything else, and the inability, in the eyes of a conventional lender, to service the area. It does seem to me that since it is a government institution it should expand its horizon. I think it is important that perhaps you give some serious consideration to this, especially in light of what we are doing in the Bank Act at this present moment, so that the banks will be able to make conventional loans and take mortgages. If you study the picture you will find out that the Industrial Development Bank will not be able to make loans at 8½ per cent, or anything like it.

Mr. RASMINSKY: Well, if the conventional rates come down, then the test that the Industrial Development Bank applies will lead to a different result. And, I very much hope that the effect of the banks having the mortgage power, is to make money—mortgage money, term loans—more readily available to small businesses that cannot undergo the expense of large flotation. If one looks at the Industrial Development Bank accounts, the Industrial Development Bank cost of funds, naturally reflects prevailing market rates of interest. And the cost of funds has been increasing in recent years, more rapidly than has been reflected in the rates charged by the Industrial Development Bank. The net income of the Industrial Development Bank, expressed as a percentage of loans in the Industrial Development Bank portfolio of loans and investments outstanding, the net income, before making provision for losses, is hardly more than one half of 1 per cent of its loans and investments outstanding. And that is certainly not a rate of return that any conventional lender would be satisfied with.

Mr. LEBOE: Would it be possible that the routine that the Industrial Development Bank goes through, and the amount of dollars that they spend in connection with the loan, are very much higher than will be under the, shall we say, loans made by the banks, once they are able to take securities.

Mr. RASMINSKY: I do not know, Mr. Leboe, whether that is the case or not. I do not think that the Industrial Development Bank cost per unit of loan money disbursed are particularly high.

Mr. LEBOE: I do not want to prolong this because we want to get into something else, but the reason for my question is that I know of one case, at this particular moment, where there have been investigations going on for nigh on two years, and finally they now turned it down. Well, there is no revenue at all, but there is the expense of spending two years looking at the proposition, and undoubtedly the individual will get money from the banking system as soon as this—

Mr. RASMINSKY: Well, I do not know who it is—

The CHAIRMAN: I wonder if I can interrupt at this time. I would think that it would be in order to ask questions on the relationship between the Bank of Canada and the Industrial Development Bank and the general Bank of Canada policies on the monetary system; but I do not think our terms of reference permit us to go into the operations of the Industrial Development Bank as such, because it is the subject of its own act of parliament governing its incorporation and operations, and this act is not before us. Perhaps it should be, but it is not. Perhaps I am at fault, I think I am, in allowing the discussion to move into an

area which is very interesting, but which I think relates more to the operations of the Industrial Development Bank itself, rather than the Bank of Canada.

Mr. LEBOE: Well, I think you have misunderstood, Mr. Chairman, the point I was trying to make. I think that the Governor understands, that I am really presenting this as something to be looked at; not as of yesterday, but to be looked at in the future, Mr. Rasminsky is the Governor of the Bank of Canada, and the relationship exists, therefore, some influence should be brought to bear to make a much more effective instrument, for the good of the general public, as far as the bank is concerned. I will leave it right there.

Mr. RASMINSKY: Well, I do,—if I can make this observation—I do take that point, Mr. Leboe, that you want us to be forward looking. At the same time I would like to register that I think that the Industrial Development Bank has been an extremely effective instrument in accomplishing the purpose as set out in the act by which it is established. The Industrial Development Bank has a portfolio, has outstanding on its books, loans in an amount of about $300 million, which is a large amount of money for the constituency that it serves, and the greater part of which, I feel quite confident, would never have been made by any institution, by any conventional lending institutions. The Industrial Development Bank, in the course of its history, has made loans which are at least double that amount, because it has received repayments. I think, and I say this subject to correction, it has made about $750 million worth of loans. The Industrial Development Bank, in quantitative terms, has done much more than any of the other quasi-conventional institutions that are operating in this field. So while I take your point that we should seek to expand our services, I would like to register that I think the Industrial Development Bank has made a very important contribution to the economic development of small business in this country.

Mr. LEBOE: I think you are right, and I agree with that. But, I suppose I am observing it much the same as the CBC combating the influence of the United States to their viewers, and spending millions of dollars trying to woo one viewer, while the whole of the north country goes without television. We will leave it at that.

The CHAIRMAN: Perhaps we may want to recommend to the house we have a chance to review the operations of the Industrial Development Bank as such. But, inasmuch as we have Mr. Rasminsky here in his capacity as Governor of the Bank of Canada, and not in his capacity as Chairman of the Board of the Industrial Development Bank, perhaps we might move along and perhaps we might have item 1 stand—no it is not item 1 as such; actually item 1 in this bill is a specific amendment. We will say the preamble stands: Clause 1 of this bill is not—

Mr. FULTON: Go straight ahead with Item 1. Clause 1.

The CHAIRMAN: Yes, well I will call the clauses, and as I said before, we have had considerable information from the Governor who was with us when we began. It seems to be longer and longer back as we move along. There are some useful explanatory notes, and we have the proceedings of our hearings with us, so if any of the members have any questions or comments as we proceed, I will ask you to signify promptly. Now I will call Clause 1.

On Clause 1—*Deputy Governor.*

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, you are carrying section 1. We are on general questions, are we not? We will not be able to speak on the Bill in general will we?

The CHAIRMAN: My idea was rather to stand over the general discussion that is remaining. To avoid a technical discussion is procedural matters, we would like to have a period for general discussion, now, if you would like that. This general discussion might lead us into some difficulty. Do you want to have a general discussion?

Mr. LATULIPPE: I have not had the occasion to put questions to Mr. Rasminsky. I would have some questions of general character and technical character to put to him. I also want to bring up some questions of a philosophical character with regard to the banking system generally. I would like to examine the question as a whole more or less.

The CHAIRMAN: It is my fault, as Chairman, Mr. Latulippe indicates he wants to be recognized. I forgot, we cannot have general discussions on the Bank Act.

Mr. FULTON: We can put general questions in regard of the Bank of Canada, can we not?

The CHAIRMAN: I allowed Mr. Clermont and Mr. Leboe to put questions.

Mr. FULTON: Should we have a general discussion on monetary policy?

The CHAIRMAN: Mr. Fulton has raised a very important point. Should we have a general discussion in the sessions when we meet the general public. That is why we sometimes have the Governor with us. Mr. Fulton has pointed out the general ideas and topics. It could perhaps be bound up with specific articles on the Bank of Canada Act.

Mr. FULTON: It seems to me that we have completed that phase.

The CHAIRMAN: I think you are right.

Mr. LATULIPPE: I had several questions in mind and we did not get exact replies and would like to put questions.

The CHAIRMAN: But you must realize it is difficult to have all kinds of witnesses here. If you do not feel the replies are sufficiently precise, this is something we cannot fully control at a Committee hearing like this one.

Mr. LATULIPPE: If I have not been able to put some questions to Mr. Rasminsky, I would like to put different questions, I have a lot of questions on the Bank of Canada which are related to the monetary system, but all are related to the Bank of Canada since the Bank of Canada keeps the whole system going.

The CHAIRMAN: Put your questions and if I and the Committee feel that the procedure does not allow you to put the questions, we will point them out.

Mr. LAFLAMME: We want to inform Mr. Rasminsky that it is not necessary to repeat what he has already stated.

Mr. LATULIPPE: The Bank of Canada was founded in 1934. It sets its interest rate at 2 percent per Treasury bills to make loans to chartered banks. This 2 per cent rate remained stable, from 1934 to 1956, although we had gone through a war and a depression and afterwards a post war period of prosperty. I would like to know why the Bank of Canada began playing about with interest rates. The Bank of Canada began manipulating interest rates and ended the stability which it had put in practice for twenty years and which had been so useful, and the Bank of Canada interest rate was then raised by $1\frac{1}{2}$ per cent to $6\frac{1}{4}$ per cent in the same year. Further Canadian Government bonds, in the conversion of wartime bonds of 6 billion 400 million dollars, were renewed at rates of $5\frac{1}{2}$ per cent, instead of 2, $2\frac{1}{2}$ or 3 per cent which has been paid in a war.

I would like Mr. Rasminsky to tell me why the Bank of Canada is manipulating rates in this way.

Mr. RASMINSKY: First of all, I do not admit that we manipulate. We change the rates depending on economic conditions at the time. The reason is that economic conditions have changed.

Mr. LATULIPPE: How is it that after the war we did not have the same economic conditions? The rates stayed at $2\frac{1}{4}$ per cent and then you began manipulating interest rates, and now we cannot understand a thing? The rates of interest are tremendous and the debentures are 6, 7 and 8 per cent for municipalities and school boards have to pay very high rates and the banks have to borrow money at 5, $5\frac{1}{2}$ and 6 per cent from the Bank of Canada. Why does the Bank of Canada not maintain its rates at a lower level, it seems to me it would help?

Mr. RASMINSKY: This is to prevent inflation, Mr. Latulippe.

Mr. LATULIPPE: But why was there no inflation during the war at $2\frac{1}{4}$ per cent?

Mr. RASMINSKY: Because we had price controls. The conditions were governed by controls.

Mr. LATULIPPE: That is easier to understand, and it is easier for the Government and the Bank of Canada to administer in wartime than it is in peacetime.

Mr. RASMINSKY: It was not the Bank of Canada that administered this. It was the Wartime Prices and Trade Board.

Mr. LATULIPPE: But when the rates change it is usually the Bank of Canada that announces the change in the interest rates, through the Minister of Finance. Then all rates go up. Now there is an increase in the interest rates allowed, and this is going to contribute still further to an increase in debenture rates. Those who have debentures now are going to sell the debentures as they did when we had this conversion loan involving 6 billion dollars. Mr. Diefenbaker pointed this out in the House. This contributes to inflation. There is no means of settling inflation this way.

Mr. RASMINSKI: I take note of your opinion.

Mr. LATULIPPE: The situation is not as good as it was when the rates were $2\frac{1}{4}$ per cent and economic conditions were better than today. If we had stood by

those principles, the situation might be better. We have more inflation now than we ever had in wartime or in any other time. We are going through unprecedented inflation. The country has never been through such a period of inflation.

The CHAIRMAN: Do you agree with that?

Mr. RASMINSKY: No, I do not agree that this is true.

Mr. LATULIPPE: When we examine interest rates and see the cost of living goes up everywhere, this means a reduction in the purchasing power, and consequently, inflation. Inflation is certainly brought about when the interest rates go up, and these big companies do not know what to do. The great majority of the people do not have the money they need. The great majority of people are ruined by taxes, by the Government sales of debentures. The public can no longer meet these financial needs. If you go into different parishes, you will find properties that are sold for school taxes. We never had this before.

The CHAIRMAN: Are you going to put a question now or are you making a statement?

Mr. LATULIPPE: It is a question I put in a general way.

Mr. RASMINSKY: I did not understand the question.

Mr. LAFLAMME: You do not have to understand!

Mr. LATULIPPE: You do not understand me perhaps but others need to.

Mr. LAFLAMME: Did your leader say that?

Mr. LATULIPPE: No, I am saying it. So, Mr. Rasminsky, if it is right to say that all new monies come out of the bank in the form of loans, and all money in circulation was originally loaned by financial institutions then this means that all new currency is a debt and bears interest?

Mr. RASMINSKY: No, that is not correct.

Mr. LATULIPPE: Then not all money brings interest? Can you define for me what sum of money in circulation does not bring interest?

Mr. RASMINSKY: The Bank of Canada bills.

Mr. LATULIPPE: Bank of Canada bills do not bear interest?

Mr. RASMINSKY: No, sir.

Mr. LATULIPPE: But when they are loaned to banks they bring interest.

Mr. RASMINSKY: Yes, but we are speaking of bills in circulation. This is not the case here.

Mr. LATULIPPE: What amount of bills has the Bank of Canada put into circulation? What is the value of Bank of Canada bills put in circulation?

Mr. RASMINSKY: The active circulation of Bank of Canada bills in the hands of Canadians and Canadian residents, on the first of February, 1967 was 2 billion 176 million dollars.

Mr. LATULIPPE: Let us say that maybe 3 billion dollars, to give a round figure. If there is 3 billion—

Mr. RASMINSKY: Let us say 2 billion dollars.

Mr. LATULIPPE: Well, 2 billion 160 million dollars, then. Let us say 2 billion dollars. So there are 2 billion dollars in circulation. How is that the banks, by their 8 per cent deposit, have over 1 billion dollars in reserves with the Bank of Canada and after that the inner reserves which the banks have available to

them. In addition to these sums, a good many other institutions have other reserves. How is it that there is that much money in circulation?

Mr. RASMINSKY: I do not see the relationship you are trying to make between these two elements as expressed in your question.

Mr. LATULIPPE: I might perhaps put it another way. How is it that there are 26 billion dollars in currency and 2 billion in circulation?

Mr. RASMINSKY: It is that we have developed the economy to the point that most transactions are carried out by cheque. Moreover we are talking of 21 billion dollars and not 26 billion dollars.

Mr. LATULIPPE: Is it fair to say that the banks create new money and become proprietors and lend at interests and at a profit to themselves?

Mr. RASMINSKY: Would you repeat your question?

Mr. LATULIPPE: Is it fair to say that the Bank create new money and become proprietors of it and lend it for their own profit?

Mr. RASMINSKY: No, that is not the case.

Mr. LATULIPPE: How is it then, if that is not the case, that in Canada we have 87 billion dollars in debt, owed by individuals and governments? These are the figures for indebtedness. If the Bank is not the owner of the assets of the Government and assets of private persons, who is the owner of these assets?

Mr. RASMINSKY: The debts are in part Government debts or debts of the private sector, but these constitute the assets of those holding bonds.

Mr. LATULIPPE: About these assets, these holdings you refer to. Were these not financed by the bank. If they were to be paid back tomorrow morning, if the financiers were to call in their debts tomorrow morning, would this not mean a risk of bankruptcy? How could we pay our debts?

Mr. RASMINSKY: It would be difficult, but it will not happen.

Mr. LATULIPPE: Then let us stay with Government bonds. We know what the Government is doing with these bonds. If the Government bonds are put on the banker's registry and become money, could they not become money on the books of the Government or another institution?

Mr. RASMINSKY: No.

Mr. LATULIPPE: These could not become money, why? Government bonds put on the books of the banks mean money to them. How is it then that this would not mean money on the books of the Government?

Mr. RASMINSKY: Well, it is a question of balancing all debts. If we use deposits to reimburse a loan that a bank has issued, the deposits decrease and the loans become extinct.

Mr. LATULIPPE: Since the Government makes a gift of national credit to institutions, could the same gift not be made to the citizens of this country?

Mr. RASMINSKY: I am sorry, I do not understand your question.

Mr. LATULIPPE: Since the Government makes a gift of national holdings to private institutions, could the Government not make the same gifts to the citizens of this country?

The CHAIRMAN: Do you agree that the Government makes a gift?

Mr. RASMINSKY: No, I do not know to what gift you refer.

Mr. LATULIPPE: The Government itself is not proprietor of the national credit. It has it created by private institutions. Now since these institutions have the right to create this credit for the Government, they record it as an asset and then this becomes a liability to the Government. Would it not be fair then that at least a part of this asset be granted by the Bank of Canada to finance public projects at a nominal interest rate designed merely to cover administration costs? I am thinking of schools, universities, highways, roads, these are very difficult to pay for to-day. In the present system, we have to pay five times over before we can get them, when we calculate the interest rate owing. You administer the Bank of Canada, could you not do this, could you see this being done?

Mr. RASMINSKY: The greatest part of the holdings of the Bank of Canada are Government securities. The total amount of our asset, consisting mainly of such bonds, depends on the monetary policy of the bank. And this monetary policy is designed to serve the needs of the economy of the country.

The CHAIRMAN: Mr. Latulippe, I am very sorry but your question period has come to an end and this being the case, I must—

Mr. LATULIPPE: Did you shorten up the question period?

The CHAIRMAN: No, no, the clerk informs me. I examined her watch, took notes and found that your question period is over. Perhaps you have very precise questions in regards to amendments that will follow and you can put them when I call these particular amendments.

Mr. LATULIPPE: If you will allow me, Mr. Chairman, I have only one further question for Mr. Rasminsky. I have a lot, but I will only put one more.

The CHAIRMAN: Yes.

Mr. LATULIPPE: I would want some information, if you would allow me?

The CHAIRMAN: Yes.

Mr. LATULIPPE: Could you tell us, Mr. Rasminsky, are capital works financed by private capital?

Mr. RASMINSKY: If the—

Mr. LATULIPPE: Could you tell us if it is the private capital that is used to finance capital works?

Mr. RASMINSKY: I cannot tell you.

The CHAIRMAN: Now, I must tell the Committee that I call clause 1—

(*English*)

Shall clause 1 carry?

Clause agreed to.

Clauses 2 to 8, inclusive, agreed to.

Mr. CLERMONT: You said 8?

The CHAIRMAN: Yes.

Mr. CLERMONT: O.K.

The CHAIRMAN: I do not want to be unfair. If I have moved too quickly—

Mr. CLERMONT: It is O.K., sir.

The CHAIRMAN: Does someone want me to revert to a particular clause because of a special question?

Mr. CLERMONT: No.

The CHAIRMAN: We are at clause 9.

Mr. FULTON: Can we stand clause 9, Mr. Chairman, until we discuss clause 10?

The CHAIRMAN: Yes.

Mr. FULTON: There are some questions I want to raise that may have a bearing on clause 9. Perhaps I can put it this way, could we discuss the two together?

The CHAIRMAN: It is clause 10 you wanted to question, on?

Mr. FULTON: Yes, but the two points I wanted to make are perhaps related.

The CHAIRMAN: Yes, we will discuss clauses 9 and 10 together.

On clauses 9 and 10.

The CHAIRMAN: Mr. Fulton?

Mr. FULTON: Thank you, Mr. Chairman. Mr. Rasminsky, we had some discussion when you were here earlier on the matter of principle, whether the Bank of Canada should be allowed to pay interest to the chartered banks on at least some portion of the deposits that the chartered banks are required to maintain with the Bank of Canada. Because of the difficulty with the transcript, I have not been able to go over it in detail to refresh my memory on the precise points that have been covered. I would like you to correct me if I am wrong in saying that you did not express an opinion as a matter of policy—your own judgment—whether this would be desirable. You said that there were certain reasons, if I recall it, that indicated in your mind that the Bank of Canada should not pay interest on the total of the deposits. Perhaps I should not try to summarize it; I should just ask you to summarize it.

Mr. RASMINSKY: If I did not express an opinion on that as a matter of principle, it was through an oversight.

Mr. FULTON: Perhaps I did not follow you closely enough.

Mr. RASMINSKY: I do not, in fact, think that the bank should be required or authorized to pay interest on chartered bank deposits with us.

Mr. FULTON: Did we get so far as to perhaps arrive closer at a possible agreement with respect to—I never remember what it is called—those secondary deposits; that they might be more susceptible to the payment of interest?

Mr. RASMINSKY: Yes; in fact, Mr. Fulton, the secondary reserves are interest bearing assets. The secondary reserves consist of deposits with the Bank of Canada, and day to day loans to the money market, and treasury bills. The day to day loans to the money market, and treasury bills, are, of course, interest bearing assets; they are the secondary reserves.

Mr. FULTON: Are they not deposits with you?

Mr. RASMINSKY: No, sir, they are not. They are assets of the chartered banks. The only deposits with us are the cash reserves that the banks are required to keep under the Bank Act and the Bank of Canada Act.

Mr. FULTON: They may now go up to 12 per cent under the new proposed act?

Mr. RASMINSKY: No, sir; under the act as it stands, the banks are required to keep a minimum cash reserve with us of 8 per cent on the monthly average. The bank has the power to raise that figure in stages from 8 per cent to 12 per cent.

Mr. FULTON: Yes, 12 per cent.

Mr. RASMINSKY: First of all, if the legislation at present before parliament is adopted, the basic cash reserve requirement will be changed, as you know, from 8 per cent to a figure which at the present time works out to something like 6.6 per cent.

Mr. FULTON: Yes.

Mr. RASMINSKY: Second, the bank will be giving up the power to vary the cash reserve ratio; that power will disappear. It will be replaced, in a certain sense, by a power to require the banks to hold secondary reserves. Those secondary reserves are assets of the banks which bear interest; they are of this character which I have mentioned, day to day loans or treasury bills. If this legislation is adopted by parliament, the bank will have the power to require the banks to hold secondary reserves of 6 per cent and the further power to raise that requirement from 6 per cent to 12 per cent. So that, on the one hand, we are giving up the power under this proposed legislation to vary the cash reserves and we are asking instead, or parliament is instead asked to consider giving us power to impose a secondary reserve ratio and to vary that secondary reserve ratio.

Mr. FULTON: At the moment when the banks go to you, or if they were to go to you to discuss with you the payment of interest on some portion of the deposits they keep with you, your answer would be "I am sorry, I cannot discuss that with you because there is a prohibition in the act", would it not?

Mr. RASMINSKY: Well, I would say that, I might even say "and I think there should be a prohibition".

Mr. FULTON: There would be no point in a discussion anyway, so long as the act remains as it is.

Mr. RASMINSKY: No point whatever.

Mr. LEBOE: I wonder if I could ask a supplementary question here?

The CHAIRMAN: Will Mr. Fulton yield? If not you will have to hold it over.

Mr. FULTON: Yes.

Mr. LEBOE: I wonder if the Governor could tell us whether there would be any possibility, because of the situation that is arising where the Minister of Finance is now going to have the final say, of any influence being brought to bear on the bank, by the government, to increase the secondary reserves of the banks to almost put them in a position where they should be reaching out and buying government securities? This may be away out in left field, I do not know; it just occurred to me as a possibility. This is the way my mind works as far as some of these things are concerned.

Mr. RASMINSKY: I hope it is away out in left field, Mr. Leboe. One cannot say that this is absolutely excluded, that the government would seek to have the secondary reserve ratio vary for reasons connected with the management of the public debt, or to find a home for treasury bills. I would very much hope, and

expect, that the government would not, and that no government would wish to do that. If that were done, for reasons unrelated to monetary policy, I must say that I would take a very poor view of that.

Mr. LEBOE: Thank you very much, Mr. Rasminsky.

Mr. FULTON: Are other deposit taking institutions, other than banks, required to maintain any deposits anywhere on which they do not receive interest? They do not maintain deposits with you do they?

Mr. RASMINSKY: No, I am afraid that I am not completely familiar, Mr. Fulton, with all the legislation governing these non-bank financial institutions that compete with banks. In the case of the banks that are incorporated under the Quebec Savings Bank Act, there I know what the cash requirement is. There the cash requirement is 5 per cent on a daily minimum basis, not on a monthly average basis, which is the way it works with the chartered banks. And that cash can be held either with us, or with a chartered bank.

Mr. FULTON: Where do they hold it?

Mr. RASMINSKY: They hold it in both places. I believe that provincial laws do impose cash and liquidity requirements on provincially incorporated trust companies, but I am afraid I do not know what they are.

The CHAIRMAN: Well gentlemen, the bell is ringing calling us to a vote in the house. I suggest we suspend the meeting and resume after the vote has been taken. Perhaps I should get the advice of the Committee. Do you think we will have time before 6.00 o'clock to go on?

Some hon. MEMBERS: No, no.

Mr. FULTON: Eight o'clock.

The CHAIRMAN: Will you be available Mr. Rasminsky at 8.00 o'clock this evening?

Mr. RASMINSKY: Yes.

The CHAIRMAN: Then the meeting is recessed until 8.00 o'clock this evening. Mr. Clermont will follow Mr. Fulton.

EVENING SITTING

The CHAIRMAN: Gentlemen, I think we are in a position to resume our meeting. When we recessed, I believe Mr. Fulton had the floor. He will be followed by Mr. Clermont. We were on clauses 9 and 10. Before calling on Mr. Fulton, again, I might draw to the Committee's attention the fact that

(*Translation*)

We have the honour of having tonight with us the Chairman of the Montreal District Savings Bank, Mr. Vanier and Senator Gouin. I think they will be quite surprised to see the speed with which we are dealing with our work. It is a pleasure to have them amongst us tonight.

(*English*)

Mr. Fulton, would you like to resume your questioning?

Mr. FULTON: Thank you, Mr. Chairman. I had asked Mr. Rasminsky whether to his knowledge non-bank financial institutions were required to maintain on deposit the sums on which they did not gain interest. I think Mr. Rasminsky said that he could not speak authoritatively because he did not know in detail the provisions of the various provincial acts. I think, Mr. Rasminsky, you were not able to say they did have to keep such sums on deposit.

Mr. RASMINSKY: That is right, Mr. Fulton; and I think I could add to that that in actual fact the amounts of cash, presumably non-interest bearing, which are normally held by institutions of the type you have in mind are less—a smaller percentage of their deposit liabilities—than the banks are required to hold under the Bank Act.

Mr. FULTON: In fact, if I said that the non-bank financial institutions, which are also deposit taking institutions, are not required to keep with some other body substantial amounts on deposit upon which they earn no interest, you would not be able to disagree?

Mr. RASMINSKY: I would not be able to quote chapter and verse of the legislation, Mr. Fulton, but, of course, to the extent that these institutions operate checking accounts which their customers can draw upon by cheque, and to the extent that they have other forms of borrowing from the public, which mature, from time to time, they must be in a position to meet adverse clearing balances. So, they must, in the nature of things, keep a certain amount of cash reserves on hand; but I am afraid I do not know what the various pieces of provincial legislation provide in that respect.

Mr. FULTON: You would not be able to disagree if I said they did not have to keep them in the form of sterile deposits upon which they can earn nothing?

Mr. RASMINSKY: I would think it most unlikely, Mr. Fulton, that these non-bank financial institutions were in a position to hold cash reserves which formed the function of clearing balances and earn interest on those reserves. I think it is most unlikely.

Mr. FULTON: But then no portion of the reserves they have to hold, or do hold themselves, form a part of the instrumentality of the monetary control in the way the banks' deposits with you do?

Mr. RASMINSKY: They do not form an instrumentality in the sense that they are required by the law regulating monetary control which is essentially the Bank of Canada Act and the Bank Act. They are not an instrumentality in the sense that they are required by law to hold certain cash reserves. On the other hand, the whole financial process, the whole process of competition between various types or among various types of financial institutions is essentially a struggle for cash reserves and the non-bank financial institutions take part in that struggle just as much as anybody else, as the banks do. They have to try to attract the deposits that will enable them to make a living; to operate profitably; to hold assets on which they can earn higher rates of return and, at the same time, be in a position to meet adverse clearing balances. I do not regard the cash reserve situation as it affects the chartered banks, subject as they are to federal

law, and the cash situation as it affects the non-bank financial institutions as essentially different from an economic point of view, but, admittedly, it is very different from a legal point of view.

Mr. FULTON: Perhaps I should ask you to explain to me the difference between a cash reserve and a reserve, if they wish to keep it in the form of short-term government securities. That would be an adequate reserve, would it not?

Mr. RASMINSKY: It would not be adequate to meet clearing balances.

Mr. FULTON: No?

Mr. RASMINSKY: No, sir; if they lose money in the clearing they have to be in a position to transfer cash to the bank or other financial institution to which they have lost funds. The non-bank financial institutions, like the banks, hold liquid assets which are readily convertible into cash, but in both cases, they are a necessary asset of the financial institutions; they are not cash.

Mr. FULTON: How do the trust companies—non-bank financial institutions —hold their reserves? In what form do they hold them?

Mr. RASMINSKY: I think that most of them—this is their cash reserves you are referring to, I presume?

Mr. FULTON: I want to equate them to the deposits which the chartered banks are required to maintain with you.

Mr. RASMINSKY: I think that most of the non-bank financial institutions, most of the trust companies which are the important ones, hold their cash reserves in the form of deposits with the chartered banks.

Mr. FULTON: In what form, savings or current?

Mr. RASMINSKY: I am afraid I cannot really answer the question with confidence, but I would think that their true cash reserves—there are, I think, perhaps people in this room who are chartered bankers who would be able to answer this with more authority than I—are held in the form of current accounts, non-interest bearing current accounts. They may, in addition, hold some interest bearing deposits with chartered banks as an alternative investment to a Treasury bill or some other liquid asset. Their true clearing balances would be held in the form of non-interest bearing current accounts with chartered banks, as a rule.

Mr. FULTON: Would you really equate these to the deposits the chartered banks hold with you?

Mr. RASMINSKY: In the sense that any financial institution which is in the position where it may suffer a withdrawal of deposits, or a loss of funds through the clearing, has to hold cash reserves. In that sense they perform the same function. The amount of cash reserves which the chartered banks hold is regulated by law, and the law before parliament now is proposing certain revisions in that amount, the general effect of which is to reduce the amount of cash reserves that the chartered banks are required to maintain and calculated on a different basis. The cash reserves which the trust companies and other non-bank financial institutions hold, in many cases, probably result from their own decisions. It may be regulated in some provincial jurisdictions, but I do not

know. The only difference between the two would arise if the federal law required the chartered banks to hold a higher proportion of their deposit liabilities in the form of what you have described as "sterile cash" than they would wish to hold. It is left entirely to their own devices.

Mr. FULTON: It seems to me that they feel that they are, Mr. Rasminsky, and you said, I think, that you feel that they are required to hold a higher proportion than they would if left to their own devices. You said that you have, to put it mildly, some reservations about paying interest on any portion of those deposits. However, my point is that whether you thought it equitable, right or not, you could not do it under the present act and under the provisions as they will be maintained notwithstanding this revision.

I would, therefore, like to move, Mr. Chairman, that—

The CHAIRMAN: Mr. Fulton, I do not want to create any technical difficulties, but our meeting at this stage is still of an unofficial nature.

Mr. FULTON: We have been adopting clauses.

An hon. MEMBER: We do not have a quorum.

Mr. FULTON: This is a reconstituted meeting, is it not?

The CHAIRMAN: Let me put it this way. I would be happy to accept your amendment. I want it understood that we do not want to create any later difficulties if we are not in an official capacity when the time comes, when we have finished the discussion.

Mr. FULTON: You mean you want lots of time to get in the members.

The CHAIRMAN: It is not a question of getting in the members but I am afraid that anybody can raise a technical difficulty in the meeting at this time. I am saying this to be fair to you. I am just saying now that—I would be happy to receive the amendment. I am just pointing this out, shall I say, to be fair to yourself.

Mr. FULTON: Do not worry about being fair to me; let us just worry about being fair to the Committee.

Mr. LEBOE: We do not have a quorum at the moment, Mr. Chairman.

Mr. FULTON: Well, then you do not have to vote on it, do you.

Mr. LEBOE: No.

Mr. CHAIRMAN: No, no.

Mr. FULTON: But I am going to make a motion.

The CHAIRMAN: Fine.

Mr. FULTON: That clause 10 of the bill be deleted—that is the one we are discussing—and the following be substituted therefor:

> Paragraph (e) of section 19 of the said Act is repealed.

That is my motion and I will sign it and pass it up. If you look at clause 10 of the bill, as it presently stands, you will find that it proposes to delete one portion of paragraph (e), namely, the portion reading, and I will go back to the opening words of section 19:

> The bank shall not, except as authorized by this Act, (e) accept deposits for a fixed term or—

So, does not clause 10 propose to delete those words "accept deposits for a fixed

term or". In other words, it is agreed, and the explanatory note says that "this restriction is no longer necessary"; that is, the restriction which has the effect of saying the bank shall not except as authorized by this Act accept deposits for a fixed term is no longer necessary, and it is proposed to delete that. The effect of my amendment then would simply be to delete the second half of the restriction contained at the moment in paragraph (e) namely, that the Bank shall not pay interest on any money deposited with the bank. So my amendment would not strike out anything that is regarded as a necessary restriction because the explanatory note says that the restriction proposed to be deleted is no longer necessary. All that my amendment would be doing would be to strike out the prohibition against the payment of interest on deposits which would, therefore, leave it entirely up to a matter of negotiation and subsequent decision whether the Bank of Canada should pay interest on deposits or not. In other words, the effect of the amendment would be to end the situation under which the Governor of the Bank of Canada must say, I think, must say, well, there is no point in discussing this because the act prohibits the payment of interest on these deposits, and would leave the matter subject to negotiation. If a case were established that all, or a part of these deposits should, in justice, earn interest, then that might be negotiated. It does not require the payment of interest; it merely ends the situation in which interest cannot be paid at all.

Then, I refer you back to other provisions in the present Bank of Canada Act which say that where deposits are accepted from international or foreign institutions, interest may be paid. This is carried forward in subclause (3) of clause 9 of the bill on page 4. The Bank may:

(m) open accounts in a central bank in any other country—

And so on. It may:

accept deposits from central banks in other countries,—

I am not reading all the words, and may

—act as agent, depository or correspondent for any of such banks or organizations; and the Bank may pay interest on any such deposits;—

It does not say they have to. It says they "may pay interest", so the purpose and effect of the amendment that I propose to the Committee is simply to delete the prohibition against the payment of interest and leave it open for discussion and negotiation whether any portion of the deposits maintained with the Bank of Canada by the chartered banks, a portion of which deposits as I understand it, is primarily for the purpose of assisting in the exercise of monetary control and is not, therefore, an insurance of the maintenance of adequate reserves, pure and simple, by the banks, but is a part of the instrumentality of over-all monetary control, whether that portion at least of their deposits might be interest bearing.

The CHAIRMAN: Are you in a position to make any comments on Mr. Fulton's proposal at this time?

Mr. RASMINSKY: If you wish me to comment on it, I will do so.

Mr. LEBOE: I was wondering, Mr. Chairman, if I could ask a question which is related to this. I sometimes ask questions when I think I know the answer but in this particular case, I am not aware of what the circumstances are. I am asking you whether or not the Governor of the Bank of Canada or the Bank of Canada

has any way of refusal of a bank purchasing notes of the Bank of Canada, with, let us say, reserves that they have accumulated which they have not been using in this way, and I ask the question because if they were interest bearing it might be difficult for the Bank of Canada to have the type of monetary control that it would like to have if money could be deposited with the Bank of Canada reserves increased in that way.

Mr. RASMINSKY: The Bank of Canada does not issue any liabilities which are interest bearing, Mr. Leboe.

Mr. LEBOE: Not at the moment?

Mr. RASMINSKY: No. The only liabilities of the Bank of Canada are either in the form of notes, that is, actual currency which circulates from hand to hand, or in the form of deposits with us which are maintained by the chartered banks or the government or the banks that operate under the Quebec Savings Bank Act.

Mr. LEBOE: Well, may be I have not made myself clear. What I was thinking about was the case of a bank having cash assets which were not in your possession as the Bank of Canada in a reserve account. Suppose they could get interest on it, as the amendment suggests, and you decided to give them interest on their deposits, then they could put more money in the reserve account with the Bank of Canada and, therefore, increase their ability to make loans.

Mr. RASMINSKY: I think that the amount of the cash reserves of the commercial banking system which determines the size of the banking system and their ability to make loans is always within the control of the Bank of Canada. We can always control the total amount of our deposits outstanding, the total amount of our liabilities outstanding, and I do not think that the ability of the banks to shift from one form of liability, for example, to shift from notes to deposits with us or from deposits to notes would impair our ability to control.

Mr. LEBOE: The reason I asked the question is that I think it has a bearing on my thinking in connection with the amendment.

Mr. RASMINSKY: Yes. Mr. Fulton, if I can just make this comment on Mr. Leboe's question. The cash reserves of the commercial banks with the Bank of Canada are the fulcrum. They are the fulcrum of the monetary system. They are the central technique through which monetary policy is made effective. It is the decisions of the central bank to increase or to diminish and usually to increase the amount of those reserves which determines whether the monetary system shall be subjected to an impulse of expansion or to an impulse of less rapid expansion or perhaps, on occasion to an impulse of contraction. In order for this system to work it is essential that the chartered banks should work to a reasonably close ratio, a reasonably predictable ratio, between the amount of cash that we put into the system and their own deposit liabilities. Otherwise, you have a moving fulcrum and you do not know where you are and monetary policy would become extremely difficult to operate and the effects of what the central bank did would become quite unpredictable. What makes that fulcrum a fixed point—what gives you this relationship is in fact the fact that the cash held by the commercial banking system with us is non-interest bearing, because that fact provides us with the assurance that if we put additional cash in, the commercial banks will want to do something with it. They hate the idea of not earning a profit on the extra cash.

Mr. FULTON: May I interrupt a moment and ask you what happens if you ask them to put additional cash with you. They do it, do they not?

Mr. RASMINSKY: Well, you know you cannot ask them to put additional cash with you. They put what the law requires.

Mr. FULTON: Then do you not raise it?

Mr. RASMINSKY: Well, under the present act, Mr. Fulton, the Bank of Canada has the power to raise it but that power has never been exercised, and we are proposing—

Mr. FULTON: That is not what I heard.

Mr. RASMINSKY: Well,—

Mr. FULTON: May be I am misinformed; this was long before you were Governor, but I heard of a certain case where the limit was raised arbitrarily and rapidly.

Mr. RASMINSKY: Not the cash limit, Mr. Fulton. In the 1954 revision of the Bank Act the cash reserve ratio required by the banks was changed from the previous system which was a minimum of 5 per cent on a daily basis; that is, they could not ever fall below 5 per cent, to an average of 8 per cent on a monthly basis.

Mr. FULTON: Yes.

Mr. RASMINSKY: And at the same time the Bank of Canada was given the power to raise that required cash reserve from 8 per cent to 12 per cent.

Mr. FULTON: Yes.

Mr. RASMINSKI: That power has never been exercised. It may be that you have something else in mind. You may have the liquid asset provision in mind, but so far as cash is concerned that power has never been exercised. The essential point, and I just repeat it once more to underline it, is for monetary policy operating through the cash reserve system to be effective the required reserves of the chartered banks have to be fixed a little above the amount that they would want to hold—

Mr. FULTON: On their own.

Mr. RASMINSKY: —if they were left completely on their own. Well, then it becomes a question of how much above is it fair or is it reasonable to fix it. I think the answer would be not too much above because you introduce some possible elements of inequity there. I do not know how much above they are under the proposed arrangements. I do know that if this legislation is adopted they will be about 1½ per cent less above what the banks would in any case want to hold than they are under the existing legislation.

Mr. FULTON: Mr. Chairman, I do not want to take too much time but I wonder if I could just pursue this subject. Mr. Rasminsky, then—

(*Translation*)

Mr. CLERMONT: A point of order. I do not know if it counts for the amendment but, this afternoon, you stopped Mr. Latulippe because he had come to the end of his time of questioning.

Mr. CHAIRMAN: Yes, that is true.

(*English*)

I wonder, Mr. Fulton, in order to be consistent with the way in which I have been asking the other members of the Committee to handle their questions, If I could pass on to the next name on my list, which is Mr. Clermont. You have proposed an amendment. I think it is obvious that over the last period of time we have been sitting it is not my approach to be unduly technical; however, it is my understanding, which is supported by a citation in Beauchesne's, that while under standing orders motions need not be seconded in Committee of the whole, this rule does not apply to special or standing committees where every motion must be seconded.

I presume, Mr. Flemming, that you are willing to second Mr. Fulton's amendment. Do not say no; otherwise you will really surprise Mr. Fulton.

Mr. FLEMMING: Well, I do not want to shock anyone.

The CHAIRMAN: I take it, Mr. Fulton, that you have moved and Mr. Flemming has seconded the amendment which you have handed to the clerk in writing; it is formally before us and I have given you some extra time to have—

Mr. FULTON: I wonder if the hon. members would be generous enough to let me conclude this one question.

The CHAIRMAN: Well,—

Some hon. MEMBERS: No objection!

Mr. FULTON: I am thinking of this overage, Mr. Rasminsky, and that is why my amendment is phrased as it is; it does not require the payment of interest, it really removes the prohibition against the payment of interest. Therefore, my point is, to the extent now, as I understand it, that the banks must maintain these cash deposits with you at a certain level twice a month which is quite sharp from their point of view, if after discussion with them you find your requirements have been a little more sharp than you intended and that they have responded to them, as we must expect them to do, then could they discuss with you the possibility of an interest adjustment on this excess over what would be required for their purposes but which you would require in your view for the maintenance of an effective and responsive system of monetary control? That is my first point, and the other is this, and you may weaken my argument very considerably. As I understand it, the cash deposits maintained with you by the Bank of Canada and properly so and, therefore, in the over-all sense earning; on the part of the banks, but not sterile in your vaults. They are put to use by the Bank of Canada and properly so and,therefore, in the over-all sense earning; in a sense I am asking that a discussion be opened about the possibility of a share of these earnings going back to the people who maintain the deposits with you.

Mr. RASMINSKY: Mr. Fulton, from the point of view of monetary control, what has to be non-interest bearing is the excess cash that the banks hold above their statutory requirements because if one were to follow the proposition you have just put forward and if the banks received interest on the excess cash they held with us over and above what they would normally hold, then you would have eliminated or, at any rate, reduced very substantially the incentive that the banks have to employ the excess cash which is the fulcrum of monetary control.

Mr. FULTON: I think the rate might be set at something which would not give much of an incentive to maintain it—

Mr. RASMINSKY: Yes, that is right. It would give them less incentive than they have now when they do not earn any. If I can just complete the answer—so far as the payment of interest on the basic cash reserve is concerned,—

Mr. FULTON: No, I am not suggesting that.

Mr. RASMINSKY: You are not suggesting that.

Mr. FULTON: You have to keep those reserves until—

Mr. RASMINSKY: Then I have given the reason why it seems to me one could not consistently with effective monetary control pay interest on the excess cash that the banks hold with us.

The CHAIRMAN: I should state for the record that shortly after Mr. Fulton proposed the motion formally we were in a position to act officially and therefore I take it we agree unanimously that everything that went before that point should be incorporated officially into our record.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Of course, his amendment is officially before us and I wonder whether the Committee would agree that the best way to proceed at this stage would be to see whether we have any further discussion by the members of the Committee on Mr. Fulton's amendment.

I believe you have, Mr. Leboe, and I gather from Mr. Clermont's signal that he has a question—

(*Translation*)

Mr. CLERMONT: Mr. Chairman, I have no comments to make on Mr. Fulton's amendment.

(*English*)

The CHAIRMAN: Do you have a question, Mr. Leboe?

Mr. LEBOE: Yes, I have a question in my mind. I was trying to follow through the reasons in connection with the amendment which proposes that interest be paid on the cash deposits, as I understand it. The amendment makes this possible by removing the prohibition. Is it not a fact then that the reason the Bank of Canda desires this is that when it wants to create a situation where there is an increase in the money supply it also wants the chartered banks to take advantage of that situation and expand the money supply in the country by virtue of using the liabilities of the Bank of Canada in such a way that they would increase their loans?

Mr. RASMINSKY: To acquire assets of some sort or another. That is exactly right, yes, sir.

The CHAIRMAN: Are there any other questions on the amendment?

Mr. MCLEAN (*Charlotte*): I cannot see how Mr. Fulton's amendment would leave the question open to argument.

Mr. FULTON: It removes the prohibition and makes this possible, not compulsory.

Mr. RASMINSKY: I guess I am not enthusiastic about it because I do not like arguments.

The CHAIRMAN: Is there any further discussion?

Mr. FULTON: I understand that you and the chartered banks get along very well.

Mr. RASMINSKY: We have up to now.

The CHAIRMAN: This might be what is called the apple of discord.

Mr. RASMINSKY: It might be the kiss of death.

The CHAIRMAN: Is there not a phrase "apple of discord"? Perhaps this would not be the case one way or another. Perhaps we should put the amendment.

Mr. FULTON: I have one other argument in favour of it. I am influenced in putting this forward by the fact that the chartered banks are now going to have to put up another form of, as I appreciate it, sterile deposit; that is, in the form of deposit insurance. They will go along with this if they must, under the law, but it is another payment they are required to make which, as I appreciate the situation at the moment, they do not really need to make because their deposits are pretty safe. I think, if we are going to try to introduce competition here, it is in that spirit that I have introduced the amendment, as I think the chartered banks are being placed under a strait-jacket in one respect and I would like to remove a little strait-jacket in the other.

Mr. CLERMONT: Mr. Chairman, when Mr. Fulton used the world "trial", it made me wonder because of what happened in Montreal a few weeks ago whether the banks were of the opinion that an insurance plan is not necessary.

Mr. FULTON: They do not oppose it, as I understand it. The city and district bank did not go bust and there was no deposit insurance scheme in effect at that time.

Mr. CLERMONT: No.

Mr. FULTON: Their deposits are safe.

Mr. LEBOE: Mr. Chairman, I think it can be readily said though that the effect of the amendment, if it was carried through by the Governor of the Bank of Canada if he yielded because of pressure of negotiations, would be detrimental, in my understanding, to monetary control; whereas if we look at the actual net profits of the banking institution I think there is plenty of room for them to pay a little deposit insurance without hurting the banks at all.

Mr. FULTON: The customers are going to pay as well.

The CHAIRMAN: I think we are now getting into the area of deposit insurance as such which is—

Mr. LEBOE: No, I was referring to the cost of insurance to the bank, not deposit insurance, because Mr. Fulton's argument was one of profit.

Mr. FULTON: I was trying to protect the customer who is the one who usually pays.

The CHAIRMAN: Is there any further discussion on the amendment? I will put the amendment and then we will proceed to a general discussion on the clause itself, starting with Mr. Clermont.

Moved by Mr. Fulton, seconded by Mr. Flemming:

That clause 10 of the bill be deleted and the following substituted therefor:

Paragraph (e) of subsection 19 of the said act is repealed.

I believe I have read that correctly.

Amendment negatived.

(*Translation*)

Mr. CLERMONT: I will hold over my comments for another section.

(*English*)

The CHAIRMAN: We were taking clauses 9 and 10 together, as far as discussion is concerned. Is there any further discussion on either clauses 9 or 10?

Mr. McLEAN (*Charlotte*): I would like to ask Mr. Rasminsky whether there is any restriction put on the price which you would pay for gold, silver, nickel, and bronze coin or any other coin, and gold and silver bullion?

Mr. RASMINSKY: No, there is no restriction placed in this act, Mr. McLean.

Mr. McLEAN (*Charlotte*): Does that mean that you can pay a price as high as you like for gold and silver, bullion?

Mr. RASMINSKY: To pay a higher price than the gold parity of the Canadian dollar would be contrary to other legislation. There is no restriction in this particular act, but if we paid more for gold than $35 U.S. an ounce multiplied by 1.08, or whatever the Canadian exchange rate was, then that would be illegal under other legislation.

Mr. McLEAN (*Charlotte*): Well, the Bank Act comes under the Bretton Woods Agreement which governs the buying and selling of gold and silver. Perhaps it is just gold.

Mr. RASMINSKY: Gold is the only thing that would be affected by the Bretton Woods Agreement.

Mr. McLEAN (*Charlotte*): Silver, I suppose, is governed by the $1.29 an ounce paid by the American government in buying and selling.

Mr. RASMINSKY: We would, of course, have no reason for paying anything other than the ordinary price. We do not buy or sell silver as a commodity. As a matter of fact, in that paragraph I think silver modifies "coin".

Mr. McLEAN (*Charlotte*): Silver is a commodity.

Mr. RASMINSKY: Yes, indeed it is, but the bank has never, to my knowledge, dealt in silver as a commodity. We have on occasion held silver coin.

Mr. McLEAN (*Charlotte*): Did you say that gold was a commodity?

Mr. RASMINSKY: Would I say that gold is a commodity?

Mr. McLEAN (*Charlotte*): Yes.

Mr. RASMINSKY: Yes, gold is a commodity that serves monetary purposes as well as others.

Mr. McLEAN (*Charlotte*): Mr. Martin, the Chairman of the Federal Reserve Bank in the United States, says that gold is not a commodity. It is a monetary measure.

Mr. RASMINSKY: It is both.

Mr. FULTON: One cannot buy and sell gold freely, can one?

Mr. RASMINSKY: There are no restrictions in Canadian law against the purchase, sale, holding, export or import of gold. Canadians are perfectly free to buy and sell gold at any price they want to.

Mr. MACDONALD (*Rosedale*): There is, in fact, a market in Toronto, is there not?

Mr. RASMINSKY: I believe that there is.

Mr. McLEAN: (*Charlotte*): But we have no backing of gold against our currency at the present time, have we?

Mr. RASMINSKY: No, sir.

Mr. McLEAN (*Charlotte*): But in the International Monetary Fund they require 25 per cent backing.

Mr. RASMINSKY: No, I am afraid that is not the case, Mr. McLean. There is nothing in the International Monetary Fund agreement that attempts to dictate in any way, that has anything to say about the backing that any country shall have against its currency.

Mr. McLEAN (*Charlotte*): But do they not require, if you put up $100 million in the International Monetary Fund, Canada must put up 25 per cent of that in gold?

Mr. RASMINSKY: In arranging their subscriptions to the International Monetary Fund, the normal rule is that each country shall pay 25 per cent of its subscription in gold and the balance in non-interest bearing notes, which are cashable on demand as the fund denominated in its own currency.

Mr. McLEAN (*Charlotte*): What I cannot understand it as Mr. Martin says, gold is a monetary measure,—we know that to get a yard of cloth has nothing to do with the price. So if it is a monetary measure I cannot see how it has anything to do with the price. If it is an ounce of gold I cannot see how it has anything to do with the price. He says it is a monetary measure. If it was a monetary measure in 1945, it seems to me it should be a monetary measure in 1967. The buying power should be the same, but it is not. We are now paying our mines between $15 and $16 for gold in American currency. I cannot see the relation at all.

The CHAIRMAN: Have you anything to bring forward to deal with that?

Mr. RASMINSKY: No.

Mr. McLEAN (*Charlotte*): Do you agree with me?

Mr. RASMINSKY: No. I have noted Mr. McLean's opinion on that, the opinion regarding the cost of gold—

Mr. McLEAN (*Charlotte*): I go back for 100 years to—

The CHAIRMAN: You are not that old.

Mr. McLean (*Charlotte*): No, but I was reading a book which was written 100 years ago and the economist was French. He said the only way that you could tell the value of gold at that time was to find out how much it would buy in silver. So I took 1945, when the price of gold was changed to $35 an ounce, and silver was worth 45 cents an ounce, and I worked it out and we should be paying $105 for gold at the present time. He wrote that 100 years ago.

Mr. Rasminsky: A lot of progress has been made in the last 100 years.

Mr. McLean (*Charlotte*): I know. The progress has been made, but I do not think it has been made in the international banking system, because our international trade has gone up from about $46 billion to $164 billion, but we are doing it on less and less gold which is recognized as the backbone of the international monetary system.

Mr. Rasminsky: We have economized in the use of all sorts of things, Mr. McLean.

Mr. McLean (*Charlotte*): It seems to me when we have gold from coast to coast there is no need to economize, because all we have to do is dig it out.

The Chairman: Do you have any further questions, Mr. McLean? Any further discussion on clauses 9 and 10?

Mr. Leboe: I would like an explanation from Mr. Rasminsky if he would not mind on subclause (4)(p) at the bottom of page 4 of the amendments in Bill No. C-190.

The Chairman: Subclause (4) (p) of clause 9.

Mr. Leboe: It says:

> (p) do any other banking business incidental to or consequential upon the provisions of this Act and not prohibited by this Act."

I do not want a long and detailed discussion of what is involved, but I was wondering basically if there was anything that you might tell the Committee that would enlighten us on just exactly what this clause means?

Mr. Rasminsky: Mr. Leboe, I really think that that is just a catch-all clause which was intended to sweep in anything that the drafters of the legislation may have omitted. But the powers of the bank with regard to banking transactions are really very considerable and they are spelled out in a good deal of detail. I think that that is just intended for the purpose that I have indicated to you. If you had asked me can I name any banking business done under paragraph (p) which we have no other authority to do, under other paragraphs of the legislation, I could not think of it at the moment. I could find out when I got back to the office.

Mr. Leboe: The question in my mind was simply this: I was wondering, for instance, whether or not through the purchase of debentures, shares or anything else which is going to be under the Bank Act now, you could actually, in effect, loan money to others than, say the government of Canada, to the provincial governments municipalities by virtue of a transaction through the central bank?

Mr. Rasminsky: We have a separate power to do that, Mr. Leboe. That power—at least as regards the purchase of provincial securities—is stated in

another section. In paragraph (j) of the same section we may make loans to the government of Canada or to the government of any province.

The CHAIRMAN: That is not amended?

Mr. RASMINSKY: No that remains in the act.

Mr. FULTON: This is not an amendment either, Mr. Chairman, this is the re-enactment of provision already in the act.

Mr. RASMINSKY: That is right. Of course anything we do, even under paragraph (p), has to be incidental to and consequential upon the provisions of the act. I mean we could not simply go out and buy some shares because we thought they were a good buy.

(*Translation*)

The CHAIRMAN: Supplementary for Mr. Latulippe.

Mr. LATULIPPE: Mr. Rasminsky, could you tell us whether the Bank of Canada have advanced a credit or loan to the Government of Canada?

Mr. RASMINSKY: Could you please repeat your question?

Mr. LATULIPPE: Could you tell us whether the procedure of a credit being made available to the Government of Canada has been used or have you made a loan to the Government of Canada?

Mr. RASMINSKY: On occasions. The Bank of Canada has made direct loans to the Government of Canada, although this has been rare. At this time, there are no direct loans made by the Bank of Canada to the Government.

Mr. LATULIPPE: There have been in the past though.

Mr. RASMINSKY: Yes, there have been.

Mr. LATULIPPE: It was a supplementary question. I will come back later on this.

(*English*)

The CHAIRMAN: Mr. Leboe, have you finished your discussion?

Mr. LEBOE: Yes.

The CHAIRMAN: Shall clauses 9 and 10 carry?

Clauses 9 to 12, inclusive, agreed to.

On clause 13.

Mr. GILBERT: Mr. Chairman, there is an editorial amendment necessary in line 40 it reads: "of notes of the Canadian banks listed in Schedule P." It should be Schedule R.

Mr. FULTON: Yes it should.

Mr. ELDERKIN: That editorial has been noted by the parliamentary counsel.

The CHAIRMAN: Is that necessary to be moved in this Committee?

Mr. ELDERKIN: No, he says it is not necessary to move it; it is editorial.

The CHAIRMAN: It will happen automatically as part of the parliamentary counsel's responsibility is concerned. Shall clause 13 carry subject to this being taken care of?

Clauses 13 to 16 inclusive agreed to.

On clause 17.

Mr. GILBERT: I was just wondering why section 30 of the said act is repealed?

Mr. RASMINSKY: I think the answer is that there is no provision of this act which requires the chartered bank to transmit any statement to the Minister. I think this is covered in the Bank Act.

Mr. ELDERKIN: That is right; it is covered in the Bank Act. It has nothing to do with this act at all, really.

The CHAIRMAN: But I gather from Mr. Elderkin's comment that there is a punishment for a false statement made to the Minister and so on, under the Bank Act.

Mr. ELDERKIN: That is correct.

Mr. RASMINSKY: Mr. Bouey tells me that before 1954 there were some returns required under the Bank of Canada Act and this is just a cultural lag.

Clause 17 agreed to.

On clause 18.

(*Translation*)

Mr. CLERMONT: I think sections 18 to 20 concern the schedules, do they not involve the schedules.

Mr. CHAIRMAN: Yes.

Mr. CLERMONT: Mr. Chairman, I would like to have comments from Mr. Rasminsky about the recommendation of the Porter Commission. Page 557 and I quote:

(*English*)

> . . . we suggest that schedules be appended to the Act which would oblige the Bank to show in fair detail the sources of its revenue, the classifications of its expenditures, the numbers and functions of its staff, and other relevant information;. . .

(*Translation*)

The CHAIRMAN: What page?

Mr. CLERMONT: Page 557.

The CHAIRMAN: French or English version?

Mr. CLERMONT: Mr. Chairman, the banks are asked whether Parliament is going to approve Bill C-222, as amended, and the amendments brought to it but they will also be obligated to give more information, won't they?

(*English*)

Mr. RASMINSKY: I am sorry, have I interrupted you, Mr. Clermont.

Mr. Clermont, for the past five years the Bank of Canada has given, in its annual statement, a very complete breakdown of its income and expenses. Perhaps I could pass this copy of our last annual report to you. We have already been carrying on—

(*Translation*)

Mr. CLERMONT: If these are recommendations by the Porter Commission; it is five years since they made their report public.

The CHAIRMAN: Partial explanation. Even if the report of the Porter Commission dates back to 1964—
(no interpretation.)

(*English*)

I think there is something to that.

(*Translation*)

Mr. CLERMONT: Mr. Chairman I won't insist. If it is in the statement of Mr. Rasminsky, the annual report should contain the information which the Porter Commission suggested be incorporated.

(*English*)

Mr. RASMINSKY: I am sorry, I did not get that.

The CHAIRMAN: Mr. Clermont was saying that he would not insist on this particular point if in fact it appears the bank is already, in an administrative way, carrying on the recommendations of the Porter Commission.

Mr. RASMINSKY: That is indeed the case.

The CHAIRMAN: Is there further discussion on clause 18.

Clauses 18 to 20, inclusive, agreed to.

Shall the preamble carry?

On the preamble.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, in the preamble, I would like to have the comments of the Governor of the Bank of Canada with regard to the recommendation of the Porter Commission, on page 539, and I quote:

(*English*)

> —we believe it would be useful to redraft the preamble so that it more accurately reflects the full range of economic policy objectives.

Mr. RASMINSKY: My comment on that would be that what is really important is that the activities of the bank should reflect the objectives of economic policy rather than the preamble to the act. I think that the preamble to the act as it stands now reflects the time at which it was written; the language sounds a little bit old fashioned. But the broad objectives stated in the preamble to the act are about the same as the objectives we have now. I think that my view would be that if you start drafting preambles you get into—

Mr. CLERMONT: Mr. Rasminsky, may I say that you prefer the results rather than the words.

Mr. RASMINSKY: Yes, that is correct.

The CHAIRMAN: Shall the title carry?

Mr. GILBERT: Mr. Chairman, just before we pass this I wonder if I could ask Mr. Rasminsky how many economists the Bank of Canada has. How many economists do you have on your staff?

Mr. RASMINSKY: How many professional economists do we have?

Mr. GILBERT: Yes.

The CHAIRMAN: How would you define a professional economist?

Mr. RASMINSKY: I would define a professional economist as a graduate in economics from a recognized university. I would estimate that we have in the neighbourhood of 25 economists.

Mr. GILBERT: What type of studies do they pursue?

Mr. RASMINSKY: All types.

Mr. GILBERT: Do they issue any papers on the studies, for public purposes?

Mr. RASMINSKY: Our economists make contributions from time to time to learned periodicals. They give papers at meetings of learned societies.

Mr. GILBERT: Do they come out under the authority of the Bank of Canada?

Mr. RASMINSKY: No; they have not done that as yet.

Mr. FULTON: Do they produce papers for you?

Mr. RASMINSKY: Oh, yes, indeed, thousands of them; very good ones, too. We have considered from time to time and are considering whether we should provide an official vehicle to carry personal articles, so to speak—signed articles—by economists or other qualified professionals on our staff.

Mr. GILBERT: The Reserve Bank does that in the United States.

Mr. RASMINSKY: Yes, they do. They do a good deal of very interesting and useful work along those lines.

Mr. GILBERT: So it may be wise if the Bank of Canada does the same.

Mr. RASMINSKY: I think when we get through the royal commissions, the amendments to the Bank Act and the Bank of Canada Act, we will be able to think of that. I think is is worth thinking about.

Mr. WAHN: Mr. Chairman, perhaps the reason was given when I was not here but—and I do not wish to revert—we do delete clause 23 dealing with reserves of the Bank of Canada. What is the reason for that or has the reason been given earlier to the Committee? Clause 14 deletes the heading preceding section 23 and section 23.

Mr. RASMINSKY: Mr. Wahn, what clause is that in the bill?

Mr. WAHN: Clause 14 on page 7.

Mr. RASMINSKY: The reason is that it is otiose. The gold reserve requirement has in one way or another been suspended practically ever since it was put into the legislation.

Mr. WAHN: It really has never been applied.

Mr. RASMINSKY: It really never has been applied.

Mr. WAHN: How does the Bank of Canada avoid—the section appears to be mandatory—

The CHAIRMAN: Not since we have carried this clause.

Mr. RASMINSKY: I have a history of it here—

The CHAIRMAN: It says in subclause (3) that:

> (3) At the request in writing of the Board, the Governor in Council may suspend the operation of this section—

Mr. WAHN: That answers it.

Mr. RASMINSKY: Yes, that is right. It has been suspended either by the Governor in Council or by the Foreign Exchange Control Act or by the Currency, Mint and Exchange Fund Act.

The CHAIRMAN: Now we have legitimized the procedure properly by legislation.

Mr. RASMINSKY: That is correct.

Mr. MCLEAN (*Charlotte*): Mr. Chairman, I would like to ask a question supplementary to Mr. Gilbert's. Mr. Rasminsky, do your economists always agree?

Mr. RASMINSKY: No; practically never!

The CHAIRMAN: Shall the title carry?

Some hon. MEMBERS: Agreed.

Title agreed to.

The CHAIRMAN: Shall the bill carry?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Gentlemen, we have marked an historic moment. This is the first of a series of banking bills that we have actually been able to carry after long and arduous study, and I hope this is a good omen for our remaining legislation in which you have already made very good progress. Although we have already thanked you and your associates on previous occasions, Mr. Rasminsky, perhaps I can again on behalf of the Committee express a word of thanks to your associates and to you personally for your very helpful discussions with us. It may be, as this committee system evolves you will be coming more frequently than every 10 years. I do not say that as a threat but as perhaps something which may be mutually beneficial both to the bank, parliament and the country at large.

Mr. RASMINSKY: Thank you very much.

The CHAIRMAN: Gentlemen, I think we are finished with our order of business for today.

Mr. GILBERT: Mr. Wahn was going to make a suggestion with respect to clause 76 of the Bank Act. He was going to ask Mr. Elderkin or the officials of the Department of Justice to reconsider the wording of clause 76.

Mr. ELDERKIN: Mr. Gilbert, it is under study and may we leave it until the next meeting when we will be able to present it to you.

The CHAIRMAN: I suggest that in view of the progress we have made that we suspend our ordinarily scheduled Friday morning sitting. I am sure there is no objection to that and that we resume Tuesday morning. It is my understanding that the Minister of Finance will want to comment—or someone on his behalf—on at least one of the clauses. He will not be able to be with us because of other commitments until Wednesday afternoon. May I make a suggestion: It is my understanding, and Mr. Clermont's, and perhaps the others who were here at the conclusion of last night's session can assist, that the Minister's attendance is not necessarily relevant to every one of the clauses which have been stood. There may be some that can be dealt with in his absence, with the assistance of Mr.

Elderkin and perhaps other officials. If that is the case may I suggest in order to continue our progress that we sit Tuesday morning—

Mr. CLERMONT: I do not think there was any question on most of the clauses which were stood that the presence of the Minister would be required except that the Minister wanted to discuss 75(g) with the Committee.

The CHAIRMAN: In particular I think that Mr. Lambert wanted to comment on clause 88. It is my understanding that he will be able—

Mr. CLERMONT: Mr. Fulton, clause 88 was stood at the request of Mr. Lambert yesterday.

Mr. FULTON: Yes; I understand that.

The CHAIRMAN: Did you also want to comment on it? Surely we can resolve it in this way: we can deal with clauses except for clause 88.

Mr. FULTON: Mr. Chairman, if the Committee felt inclined there are about three clauses that I would like to have an opportunity to comment on, I would not like to hold the bill up but I will be back on Wednesday and I would like to comment on these clauses.

The CHAIRMAN: Could you indicate which clauses they are?

Mr. FULTON: I will send you a message or a note.

The CHAIRMAN: Let us adjourn until Tuesday morning. I am sure we can work this out in a way that is fair to all concerned.

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, I would like to know whether all the briefs that were tabled, will be in the proceedings of our discussion. Will they be in the reports?

The CHAIRMAN: Yes, I think so. The briefs that were officially tabled with us, yes, those will appear in the minutes. Are you referring to certain specific statements?

Mr. LATULIPPE: Yes. I tabled a brief, will it appear?

The CHAIRMAN: Yes, I believe that we have already agreed to print and have it circulated to all members of the Committee for their personal study. I am just about certain that it will be printed with the minutes and proceedings of this Committee.

Mr. LATULIPPE: That is what I am asking, but I was supposed to appear, so, I would ask that they be put in the minutes.

The CHAIRMAN: Miss Ballantine tells me that we have agreed to have them printed in the last issue of the minutes. So, they will be a public document.

Mr. LATULIPPE: Thank you.

(*English*)

Mr. CLERMONT: With respect to the clauses which are stood—I think they number about 12 or 14—will we be able to discuss some of them on Tuesday; otherwise we will have to wait until Wednesday. What is the use of having a meeting on Tuesday?

The CHAIRMAN: Certainly, we can discuss them and pass them. As a matter of courtesy to some of our colleagues who may not be able to be present Tuesday perhaps we will decide not to deal with them all on Tuesday.

Mr. CLERMONT: My question is: Will we be able to decide on some clauses on Tuesday, otherwise there is no need for a meeting Tuesday.

The CHAIRMAN: Certainly, we will have a regular meeting on Tuesday, and we will deal officially with as many clauses as possible.

We will adjourn until Tuesday morning.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 50

TUESDAY, FEBRUARY 21, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

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WITNESSES:

Mr. C. F. Elderkin, Special Adviser, Department of Finance; and Mr. J. W. Ryan, Department of Justice.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25760—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,	Fulton,	Mackasey,
Cameron (*Nanaimo-Cowichan-The Islands*)*,	Gilbert,	McLean (*Charlotte*),
	Irvine,	Monteith,
Chrétien,	Lambert,	More (*Regina City*),
Clermont,	Latulippe,	Munro,
Coates,	Leboe,	Valade,
Comtois,	Lind,	Tremblay,
Flemming,	Macdonald (*Rosedale*),	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

*Replaced Mr. Saltsman at the afternoon sitting, February 21, 1967.

ORDER OF REFERENCE

TUESDAY, February 21, 1967.

Ordered,—That the name of Mr. Cameron (Nanaimo-Cowichan-The Islands) be substituted for that of Mr. Saltsman on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

25760—1½

MINUTES OF PROCEEDINGS

TUESDAY, February 21, 1967.
(102)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Chrétien, Clermont, Comtois, Gilbert, Gray, Laflamme, Lambert, Leboe, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Valade, Wahn (15).

Also present: Mr. Cameron (*Nanaimo-Cowichan-The Islands*).

In attendance: Messrs. C. F. Elderkin, Special Adviser, Department of Finance; and P. M. Ollivier, Parliamentary Counsel.

The Committee resumed consideration of Bill C-222, An Act respecting Banks and Banking.

On clauses 34, 35 and 36

The Committee agreed unanimously to rescind the decision previously taken on clauses 34 and 35.

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clauses 34, 35 and 36 be amended

(a) by renumbering subclauses (1) and (2) of clause 34 on page 21 thereof as clauses 34 and 35, respectively;

(b) by striking out line 15 on page 21 thereof and by substituting therefor the following:

"disposal of shares under section 34 exceeds the price per";

(c) by renumbering clause 35, as amended, on page 21 thereof, as clause 36;

(d) by striking out the reference to section 33 or 34 in line 36 on page 21 thereof and by substituting therefor "sections 33 to 35,"; and

(e) by striking out clause 36 on page 21 thereof.

The clauses, as amended, were carried.

On clause 56

The Committee agreed unanimously to rescind the decision previously taken on subclause (2) of clause 56.

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 56 be amended by striking out lines 15 to 24, inclusive, on page 36 and by substituting therefor the following:

"(2) Where more than twenty-five per cent of the issued and outstanding shares of the capital stock of the bank were held on the 22nd day

of September, 1964, in the name or right of or for the use or benefit of any one non-resident, the bank, so long as the total number of shares of the capital stock of the bank held by non-residents exceeds twenty-five per cent of the total number of issued and outstanding shares of the capital stock of the bank,

(a) shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made or recorded in a register of transfers of the bank unless the transfer is from a non-resident to any associates of the non-resident; and

(b) shall not accept a subscription for a share of the capital stock of the bank by a non-resident;

but if at any time after the 22nd day of September, 1964, there is no one person in whose name or right or for whose use or benefit more than ten per cent of the issued and outstanding shares of the capital stock of the bank are held, this subsection ceases thereafter to have any force or effect."

The clause was carried, as amended.

On clause 63

By unanimous consent, the Committee reverted to consideration of clause 63.

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That subclause (17) of clause 63 be amended by adding the following at the end of line 22 on page 44:

"but this subsection does not apply in the case of a corporation controlled by the bank that carries on its operations in a country other than Canada if the law of that country makes provision with respect to auditors."

The clause, as further amended, was carried.

On clauses 76, 88, 91, 92 and 93

Mr. Elderkin was questioned and the clauses were allowed to stand.

On clause 124

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 124 be amended by striking out lines 5 to 8, inclusive, on page 91 and by substituting therefor the following:

"assets;

(d) the indebtedness evidenced by a bank debenture is subordinate in right of payment to the prior payment in full of the deposit liabilities of the bank and such other liabilities of the bank as are mentioned in that debenture or in any document under which it was issued; and

(e) the amount of any penalties for which the bank is liable shall be a last charge upon the assets of the bank."

The clause, as amended, was carried.

On clause 138

Mr. Elderkin was questioned and the clause was allowed to stand.

On clause 145

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clause 145 be amended by striking out lines 7 and 8 on page 97 and by substituting therefor the following:

"sions of that paragraph is subject to a penalty of one thousand dollars a day for each day in which the violation"

The clause was carried, as amended.

On clause 151

Mr. Elderkin was questioned and the clause was allowed to stand.

At 12:55 p.m. the Committee adjourned until 3:45 p.m. this day.

AFTERNOON SITTING

(103)

The Committee resumed at 3:55 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Chrétien, Clermont, Comtois, Gilbert, Gray, Laflamme, Lambert, Leboe, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*), Wahn (14).

In attendance: The same as at the morning sitting, and Mr. J. W. Ryan, Director of Legislation Section, Department of Justice.

On clause 96

Mr. Ryan was questioned and the clause was carried.

The Committee again reverted to consideration of clauses 88 and 89. Messrs. Ryan and Elderkin were questioned and the clauses continued to stand.

The Committee resumed consideration of Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

On clauses 28, 29 and 30

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clauses 28, 29 and 30 be amended

(a) by renumbering subclauses (1) and (2) of clause 28 on page 10 thereof as clauses 28 and 29, respectively;

(b) by striking out line 14 on page 10 thereof and by substituting therefor the following:
"disposal of shares under section 28 exceeds the price per";

(c) by renumbering clause 29, as amended, on page 10 thereof as clause 30;

(d) by striking out the reference to section 26 or 28 in line 35 on page 10 thereof and by substituting therefor "sections 26, 28 or 29"; and

(e) by striking out clause 30 on page 10 thereof.

The clauses were carried, as amended.

Clause 84 was carried.

At 4:30 p.m. the Committe adjourned until 3:45 p.m., Wednesday, February 22, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

TUESDAY, February 21, 1967.

The CHAIRMAN: Gentlemen, the meeting is called to order.

Another booklet of amendments has been distributed and I ask the Committee first to look at clause 36 which was one of the clauses that was stood, in this case at the request of Mr. Wahn. Mr. Wahn's comments have been looked into and I would like you to deal with this matter.

Mr. C. F. ELDERKIN (*Department of Finance*): We will have to revert to that, Mr. Chairman.

The CHAIRMAN: We have not passed clause 36. It was stood, but I gather there are some consequential matters involving clauses 34 and 35. Is that right?

Mr. ELDERKIN: It is only a redrafting to eliminate clause 36. Clause 36 was the one that gave an exemption from income tax when new shares were issued. Mr. Wahn raised the point of whether banks should have a special exemption. On checking back I found the reason for putting this in was that at the time it was put in—1954—there was a considerable amount of uncertainty in the income tax rulings as to whether rights were taxable or not. At the present time rights are considered to be non-taxable income; therefore, there is no reason for the provision being in and if, later on, the law is changed to make them taxable, then the banks' shareholders should not be exempted. The remainder is a redrafting of clauses 34 and 35 to eliminate clause 36.

The CHAIRMAN: Are there any questions or comments on this?

First of all, I think to have this properly before us that we would want the unanimous consent of the Committee to rescind our votes on clauses 34 and 35, which I presume we have. Secondly, to have this officially before us as well as the other amendments that will be put forward today, I ask that they be moved formally by Mr. Clermont and seconded by Mr. Macdonald, and we will take that as the case for any other amendments moved today on behalf of the government.

Mr. CLERMONT: I move that Bill C-222, An Act, respecting Banks and Banking, be amended

(a) by renumbering subclauses (1) and (2) of clause 34 on page 21 thereof as clauses 34 and 35, respectively;

(b) by striking out line 15 on page 21 thereof and by substituting therefor the following:

"disposal of shares under section 34 exceeds the price per";

(c) by renumbering clause 35, as amended, on page 21 thereof, as clause 36;

(d) by striking out the reference to section 33 or 34 in line 36 on page 21 thereof and by substituting therefor "sections 33 to 35,"; and

(e) by striking out clause 36 on page 21 thereof.

Mr. MACDONALD (*Rosedale*): I second the motion.

The CHAIRMAN: I invite questions or comments from the Committee with respect to the proposed amendments to clauses 34 to 36 inclusive. I gather the amendments to clauses 34 and 35 are to give effect to the amendment to clause 36, which is to delete it.

Mr. ELDERKIN: That is right. It is only for that purpose, Mr. Chairman.

Mr. LAMBERT: Mr. Chairman, is the purpose of this, in effect to amend the Income Tax Act, or to confirm a stand taken by the income tax department?

Mr. ELDERKIN: No, on the contrary, Mr. Lambert. It is to eliminate from this bill any special provisions for bank shareholders. In other words, they will fall under the Income Tax Act no matter what it is.

Mr. LAMBERT: Well, yes, but there are many people who have acquired bank shares on the basis of clause 36.

Mr. ELDERKIN: Well, they are not taxable at the present time.

Mr. LAMBERT: They are not taxable? All right. But with respect to those shares, in the event that any rights are issued with regard to them they will then be taxable?

Mr. ELDERKIN: No. Any new issue of shares will not be taxable under present Income Tax Act but it is possible, with a change in income tax, that the rights may become taxable; whether they would or not, I do not know. This only eliminates a provision which had previously exempted them from income tax.

Mr. LAMBERT: What concerns me is that if there is to be an income tax change it shall be made only under the Income Tax Act and not in this act?

Mr. ELDERKIN: That is right. That is what it is. We are taking out a provision which can affect the Income Tax Act. We are taking it out altogether.

The CHAIRMAN: You are saying that the removal of this clause will still leave the holders of rights, and so on, in the tax-free position they were with the clause in.

Mr. ELDERKIN: There are no holders of rights at the present time.

The CHAIRMAN: Not rights, but whatever the nature of the security issued under this clause might have been.

Mr. ELDERKIN: At that time they were tax free and they are tax free as far as the income tax rulings are today, so all we are doing here is taking out a special provision that was put in to meet a situation that existed in 1954.

Mr. LAMBERT: Well, I hope this is correct, and I hope it is interpreted in that way, because I would not want us, by this act, to do something by the back door to the Income Tax Act.

Mr. ELDERKIN: On the contrary, Mr. Lambert, we are taking out something which did affect the Income Tax Act; there is no question about it.

Mr. LAMBERT: Also, I am concerned about the protection of the rights of individuals who own bank shares. They have rights as well as anybody else, and what you may be saying is quite right, but I want to make it absolutely clear that if anything is to be done to affect the rights of bank shareholders, vis-à-vis rights, it will be done only by the Minister of Finance by a direct amendment to the Income Tax Act.

Mr. ELDERKIN: That is correct.

Mr. LAMBERT: If that happens, then it is all right.

Mr. ELDERKIN: That is correct, Mr. Lambert.

The CHAIRMAN: Shall the amendment to clauses 34 and 35 carry?

Amendments to Clauses 34 and 35 agreed to.

Clauses 34 and 35 as amended agreed to.

The CHAIRMAN: Shall the amendment to clause 36—in effect, striking it out—carry?

Amendment to clause 36 agreed to.

Clause 36 as amended agreed to.

The CHAIRMAN: Clause 39 had been stood.

Mr. ELDERKIN: I am not sure what the reason was; I have not been told.

Mr. CLERMONT: I think it was at the request of Mr. Wahn, for what reason I do not know.

Mr. ELDERKIN: It was Mr. Wahn on clause 36, but I think it was Mr. Fulton on clause 39 and I am not quite sure what objection there is, if any, to the present wording. As you can see, it simply governs the question of calls.

The CHAIRMAN: Well, let us stand this again until this afternoon to see whether Mr. Fulton can be here, without prejudice to—

Mr. LAMBERT: It may be that there would be some disability of voting rights in the event of unpaid calls; that the holder of a share who has not paid a call and is in default would thereby be disentitled from voting his shares.

Mr. ELDERKIN: That will come under the voting and not under the call.

Mr. LAMBERT: But I am not sure if this is the problem.

Mr. ELDERKIN: I do not know either.

The CHAIRMAN: Well, let us deal with it this way: I will let it continue to stand at least until this afternoon, and perhaps the Clerk can check and see when Mr. Fulton will be with us.

If you look at the booklet presented this morning you will see there is a suggested amendment to clause 56.

Mr. CLERMONT: I move that Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 15 to 24, inclusive, on page 36 thereof and by substituting therefor the following:

Non-resident ownership of bank.

"(2) Where more than twenty-five per cent of the issued and outstanding shares of the capital stock of the bank were held on the 22nd day of September, 1964, in the name or right of or for the use or benefit of any one non-resident, the bank, so long as the total

number of shares of the capital stock of the bank held by non-residents exceeds twenty-five per cent of the total number of issued and outstanding shares of the capital stock of the bank,

(a) shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made or recorded in a register of transfers of the bank unless the transfer is from a non-resident to any associates of the non-resident; and

(b) shall not accept a subscription or a share of the capital stock of the bank by a non-resident;

but if at any time after the 22nd day of September, 1964, there is no one person in whose name or right or for whose use or benefit more than ten per cent of the issued and outstanding shares of the capital stock of the bank are held, this subsection ceases thereafter to have any force or effect."

Mr. MACDONALD (*Rosedale*): I second the motion.

(*Translation*)

The CHAIRMAN: Mr. Clermont?

Mr. CLERMONT: In regard to clause 56—

The CHAIRMAN: Yes.

Mr. CLERMONT: Could Mr. Elderkin give us an explanation with regard to the last paragraph:

(*English*)

...but if, at any time—

after the 22nd day of September, 1964

there is no one person in whose name or right or for whose use or benefit more than ten per cent,

If the Citibank owns up to 25 per cent instead of 100 per cent, what about that 10 per cent?

Mr. ELDERKIN: They may hold 25 per cent, Mr. Clermont. Because of the exemption at the date that the bill was presented, they held more than 25 per cent, they may continue to hold 25 per cent.

Mr. CLERMONT: Will they be able to increase their assets?

Mr. ELDERKIN: No.

Mr. CLERMONT: They will have to stay within 20 to 1?

Mr. ELDERKIN: Oh, that is another section altogether. If they go down to 25 per cent, they get rid of clause 75 (2) (g).

Mr. CLERMONT: Yes, but does there not seem to be a conflict between (2) and the last paragraph that I just quoted, Mr. Elderkin? Part 2 of your amendment—non-resident ownership of banks—you mention 25 per cent and then you come down.

Mr. ELDERKIN: Yes, but if you go to clause 75 (2)(g) which is the one you are referring to—

Mr. CLERMONT: The exemption will be there?

Mr. ELDERKIN: Yes it is in clause 75 (2)(g),which provides that:

> ...if more than 25 per cent of its issued shares are held by any one resident or non-resident...

so, it is when more than 25 per cent is involved that clause 75 (2)(g) takes effect. That amendment, if I may speak—

The CHAIRMAN: Before we allow you to continue, it appears that the Committee dealt with this, I think last Wednesday. We will need the unanimous consent of the Committee to rescind the previous decision so we can open this matter again.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Elderkin, the Committee has agreed to this unanimously, so will you proceed?

Mr. ELDERKIN: The only difference between this amendment, Mr. Chairman, and the amendment that was approved before actually is contained in paragraph (a) which refers to transfers from a non-resident to associates. Before that, the way it was worded overlooked the fact that there could be no transfer between non-residents. You have a situation where there are directors of the Mercantile who may be retiring from their parent bank and the parent bank may wish to replace them as directors on the board of the Mercantile. All that this amendment to the amendment does is to permit transfers between those people; that is all.

Mr. LAMBERT: In other words, within clause 75 (2) (g), you are allowing transfers between associates.

Mr. ELDERKIN: Between themselves; that is right. That is all there is to this amendment. That is the only change involved.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They cannot make a sale to another non-resident?

Mr. ELDERKIN: No, it has to be an associate which means a director, probably of the first National City Bank or of the IBC.

Mr. LAMBERT: I want to get clear that the effect of clause 56(2) is that if the total shares held by non-residents drop below the 25 per cent and no individual non-resident shareholder owns more than 10 per cent, then clauses 53 and 54 are automatically triggered and clause 75(2) (g) no longer applies.

Mr. ELDERKIN: That is right. Also I might add—and I think you implied this in your question—that if ownership by one non-resident got down to 25 per cent, he then could transfer to other non-residents quite freely, but no more than 10 per cent to any one non-resident.

Mr. LAMBERT: Yes, that is right, and the 10 per cent rule comes into effect.

Mr. ELDERKIN: Yes, the 10 per cent rule would come into effect.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): If you want to get rid of clause 75 (2) (g) there would have to be that transfer to reduce the holdings of any one non-resident to 10 per cent?

Mr. ELDERKIN: No, reducing the holdings of the one non-resident to 25 per cent would get rid of clause 75 (2) (g).

The CHAIRMAN: Then you could transfer?

Mr. ELDERKIN: Once they got down to that 25 per cent status they could transfer to another non-resident, but not more than 10 per cent to any one non-resident.

Mr. LAMBERT: What effect is there with respect to a non-resident shareholder who owns more than 10 per cent at the time clause 53 comes into effect, which says that you cannot own more than 10 per cent?

Mr. ELDERKIN: Any person who owns more than 10 per cent at the time this act comes into force is exempted from that, but if he goes down to 10 per cent he can never go up again.

Mr. LAMBERT: Once you go below that line you can never come above it?

Mr. ELDERKIN: That is correct or, if you do, you lose all your voting rights.

Mr. LAMBERT: All your voting rights?

Mr. ELDERKIN: All your voting rights.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): For the ten per cent as well?

Mr. ELDERKIN: Yes, for the 10 per cent as well.

Mr. LAMBERT: This is the thing that gets me. You can get a technical disqualification and you lose everything. Why is it that you—

Mr. ELDERKIN: Well, I do not know of any other way you can control it, quite frankly. If you only took away their exemption from 10 per cent, then you get yourself into a position where it is theoretically possible for one shareholder to buy up 100 per cent and with his remaining 10 per cent, if he could vote it, he could control the corporation.

Mr. MACDONALD (*Rosedale*): Mr. Elderkin, would you agre that this kind of sanction is useful encouragement to anybody to avoid a technical disqualification?

Mr. ELDERKIN: Oh, yes, and we hope that the banks will point this out to their shareholders and management. And he can correct this situation if he finds himself temporarily disqualified. He can correct it by getting rid of his excess down to 10 per cent at any time.

Mr. LAMBERT: This smacks of some of the taxing statutes in this country where, if you have anything up to $50,000, you are not subject to tax but if you are up to $51,000 the whole darn lot is caught.

Mr. ELDERKIN: The inheritance tax.

Mr. LAMBERT: Yes, the province of Ontario is one.

The CHAIRMAN: Are there any further comments or discussion with respect to this?

Mr. LAMBERT: The principle is quite wrong.

The CHAIRMAN: Perhaps we can relate our comments to the specific amendment and if there are no further comments or discussion with respect to it, I would ask if the amendment carries?

Amendment agreed to.

Clause 56 as amended agreed to.

The CHAIRMAN: I would ask again for the Committee to agree unanimously that we rescind our previous decision with respect to clause 63, subclause 17. In the booklet tabled today there is a further change suggested.

Mr. CLERMONT: I move that Bill C-222, An Act respecting Banks and Banking, be amended by adding at the end of line 22 on page 44 thereof the following:

> "but this subsection does not apply in the case of a corporation controlled by the bank that carries on its operations in a country other than Canada if the law of that country makes provision with respect to auditors."

Mr. MACDONALD (*Rosedale*): I second the motion.

The CHAIRMAN: I will ask Mr Elderkin to explain what we are dealing with here.

Mr. ELDERKIN: At the present time the Bank Act requires that where a bank owns a subsidiary corporation—a controlled corporation—it must insist that the auditors of the bank become the auditors of the controlled corporation. We are in the midst of various arguments about extra-territorial jurisdiction these days and the idea of this amendment is to provide only that if there is a law in another country where a controlled corporation of a bank exists which requires that local auditors should be used—

An hon MEMBER: The provision does not take effect.

Mr. ELDERKIN: In practice, what will happen on this, if there is such a law, is that the bank auditors will probably do a review of the work of the auditors in the foreign country. This is to take out any tinge, if you will, of extra territorial jurisdiction in this particular provision, which is the only one we can find in the Bank Act that has that effect.

Mr. LAMBERT: I was just wondering whether it was envisaged within the meaning of this amendment, that if the country in which there was a carrying on of the subsidiary other than in Canada, that the laws of that country would require the auditors to examine the whole shooting match.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is when we get into trouble.

Mr. ELDERKIN: One of the things that is up for discussion at the present time, Mr. Lambert, in the new federal reserve regulations which have not yet been brought into effect, is a provision that the federal reserve, in effect, can insist on naming the auditors of the foreign subsidiary of an American bank. Actually this is not new; it is just that it is now in two of their regulations, instead of one. They have never used this as far as the Mercantile is concerned, but the Canadian government has taken the stand that this is extra territorial and that the Mercantile should not respond to such an order. This is one reason for putting forth this amendment, because we are saying that we would not even ask for that particular provision for a foreign subsidiary of a Canadian bank.

The CHAIRMAN: At the same time, however, I gather that you retain your authority as Inspector General of Banks to ask for information of the parent, or head office.

Mr. ELDERKIN: Oh, yes, through the head office, which is the way we have always operated, anyways. We never have operated any other way and we never have objected to the Americans asking for information about the Mercantile through the parent bank at any time. I can carry this further for the information of the Committee. We would never object if we had branches or agencies in this country.We would never object to inspection by the parent country because these are only part of the bank. We do inspect in a way; we inspect branches of Canadian banks in other countries but only because they are part of the banks—they are not an entity in law.

Mr. LAMBERT: What I am getting at is the reverse; if Canadian banks carry on operations in a foreign country and that foreign country dictates that it shall appoint auditors for the operations of either the subsidiary or the branch, this should not include authority for those auditors to come in and carry on here.

Mr. ELDERKIN: I am quite sure that would not be permitted, Mr. Lambert.

Mr. MACDONALD (*Rosedale*): Mr. Elderkin, in connection with the inspection of the emanations of Canadian bank, when the Canadian chartered banks were evading the foreign exchange control regulations was it not possible to inspect their American operations? Were all the agencies separate American corporations?

Mr. ELDERKIN: I am not quite sure what you mean, Mr. Macdonald, when you say, when the Canadian banks were evading the foreign exchange control regulations.

Mr. MACDONALD (*Rosedale*): Well, it is fairly common general knowledge that they were not exactly helpful at the time we had foreign exchange control in this country, and I wondered to what extent we have been able to examine those operations.

Mr. ELDERKIN: Well, if this is the case, the Foreign Exchange Control Act had all the powers necessary to examine.

Mr. MACDONALD: (*Rosedale):* Did the fact that they were foreign entities not discourage this at all?

Mr. ELDERKIN: Do you mean foreign subsidiaries of Canadian banks?

Mr. MACDONALD (*Rosedale*): No, I mean the agencies in New York City, specifically, of the Canadian chartered banks.

Mr. ELDERKIN: There has been no argument about examining agencies in New York City. They are agencies; they are part of the main structure of the bank.

Mr. MACDONALD (*Rosedale*): They are not separate corporate persons?

Mr. ELDERKIN: No, they are not separate corporate people.

The CHAIRMAN: Is there any further discussion or comment? Mr. Elderkin, in the past have they actually gone physically into the branches or agencies of Canadian banks in the United States to carry out inspections?

Mr. ELDERKIN: No, but we have required the auditors to go in.

The CHAIRMAN: You have required the auditors to go in?

Mr. ELDERKIN: That is right.

The CHAIRMAN: What has been the practice of your own office?

Mr. ELDERKIN: We do not actually go in. We have never actually gone into the New York agencies nor have we gone into the California agencies, but we have required the auditors to report and the reports are available to us.

The CHAIRMAN: I am referring specifically to branches and agencies which I consider direct emanations of the parent entity.

Mr. ELDERKIN: Under the Bank Act, Mr. Chairman, the Inspector General may use the facilities and the operations of the shareholders auditors for any purpose that he sees fit, and we do that in the case of the New York agencies and in many of the foreign countries. We ask the auditors to report, and then their reports are available to the office of the Inspector.

Mr. MACDONALD (*Rosedale*): How can the same corporate person be its own agency?

Mr. ELDERKIN: It is not a corporate person.

Mr. MACDONALD (*Rosedale*): Well, then, it is a branch; it is not an agency at all.

Mr. ELDERKIN: A branch or an agency is the same thing from the point of view of a legal entity.

Mr. MACDONALD (*Rosedale*): I am sorry, it is not a legal entity. In legal terms they are branches; they are not really agencies at all.

The CHAIRMAN: I think this may be a matter of the local law.

Mr. ELDERKIN: It is just a matter of local law, as the Chairman says. They are branches of the main company.

The CHAIRMAN: From the point of view of the local laws.

Mr. MACDONALD (*Rosedale*): And they are not separate incorporations?

Mr. ELDERKIN: No, the only separate incorporations of Canadian banks up until very recently were the two in Paris and the one in California.

Mr. LAFLAMME: Are the operations of the Canadian branches abroad subject to the provisions of the local authority too?

Mr. ELDERKIN: In some cases, yes. In most cases, yes. Certainly in the United States they are.

The CHAIRMAN: So, by this amendment you are, in effect, creating an example through our own banking legislation which you think would be useful for other countries to take cognizance of?

Mr. ELDERKIN: That is right, sir.

The CHAIRMAN: I am not referring to any other national entity. Are there any further questions or comments on this amendment? If not, I shall ask if the amendment carries.

Amendment agreed to.

Clause 63 as amended agreed to.

The CHAIRMAN: Now, clause 75 has been stood. I think we agreed that this would be stood until tomorrow afternoon at which time, I gather, the Minister wishes to come and make some further comments about it.

Mr. ELDERKIN: I have had a request that the amendment to clause 76 stand at the present moment. Could we stand it for this morning, Mr. Chairman?

An hon. MEMBER: We agreed to this last week. Everybody agreed on it.

Mr. CLERMONT: Mr. Elderkin, did you say you had a request that the amendment to clause 76 be stood?

Mr. ELDERKIN: For this morning, yes.

Mr. GILBERT: I wonder if Mr. Elderkin could explain clause 76, even though we are—

Mr. ELDERKIN: Yes, I would be pleased to. Clause 76 is changed from what it was by the amendment which was submitted to you under date of February 14. The only change is in connection with the investment of $5 million limit. It was pointed out at that time, I think by Mr. Wahn, that as there was no limit to the holding of shares under the $5 million investment, a bank could own all of the voting shares of a company, and this could be very small in comparison with the size of the company. In view of the fact that they did have all the voting shares, they could then put money into non-voting shares to any extent they wanted and so build a very large corporation out of it. This would only take place, of course, under the circumstances mentioned by Mr. Wahn—where they owned all the shares.

The only change by this particular amendment is to provide that this $5 million investment applies only up to, and not more than, 50 per cent of the shares. Therefore, the amendment provides that a bank may own not more than 10 per cent in a trust or loan company. That is one set. With respect to other Canadian corporations it may own 10 per cent, no matter what the size of the investment, or up to 50 per cent if the investment is not more than $5 million. Is that clear, Mr. Gilbert?

Mr. GILBERT: Yes, it is.

Mr. ELDERKIN: Now, this also requires consequential changes in subclause (2) which is for the purpose of controlling investment through a foreign subsidiary, and it has exactly the same changes in it, just for the purposes of control.

M. LAMBERT: I want to be clear here. This is now coming back to the position that you can own up to 10 per cent.

Mr. ELDERKIN: In any company.

Mr. LAMBERT: In any company? But the amendment that was proposed the other day by the Minister was that it could own anything up to $5 million.

Mr. ELDERKIN: Mr. Lambert, this was the point, I think, which Mr. Wahn raised—and quite properly—and which I have just tried to explain. In the original one, it could own up to any amount in a company. As I mentioned a few minutes ago, if the bank owned 100 per cent the voting shares of a company which do not exceed a cost of $5 million, it then could build the company to any size it wished by putting money into non-voting shares. There was no limit. To cover this, after discussion it was the Minister's suggestion that to prevent this

we cut down the share ownership under the $5 million investment limit to 50 per cent. In other words, it would not be worthwhile for a bank to put money into non-voting shares except in partnership with somebody else.

Mr. LAMBERT: This is quite a different thing.

Mr. ELDERKIN: But it still covers all the present situations.

Mr. LAMBERT: Well, does it?

Mr. ELDERKIN: Yes. Well, it covers all the present situations that it was intended to cover. I am sorry; there may be one or two that will require some divesting. Certainly, there will be divesting in some cases in the shares in trust and loan companies.

Mr. LAMBERT: Well, that is separate.

Mr. ELDERKIN: Yes.

Mr. LAMBERT: I am concerned about a situation where they held the shares under some form of security.

Mr. ELDERKIN: No; if they hold them as security it is another matter entirely. This is the question of voting shares.

The CHAIRMAN: Beneficially held.

Mr. ELDERKIN: Yes, beneficially held for votes.

Mr. LAMBERT: In many instances the banks have acted as the holder of voting shares, and everything like that, of smaller companies. They will have the whole shooting match.

Mr. ELDERKIN: Well, they cannot vote more than 50 per cent.

Mr. LAMBERT: Well, this is a wide deviation from what the Minister said he was prepared to do.

Mr. ELDERKIN: It is a wide deviation from the first amendment put in, but it covers all the present situations which, perhaps, he wished to have covered.

Mr. MACDONALD (*Rosedale*): I would like to ask Mr. Elderkin how shares, which only carry the right to vote in the event of a certain contingency, fit into this particular analysis?

Mr. ELDERKIN: There is a provision here that if the shares acquire voting rights later on they may be held, if I remember rightly, for two years, but must be disposed of if they exceed the limit. That is covered in a provision now. Otherwise, I think this is a sensible amendment because really it prevents the banks from owning more than 50 per cent of any company. In the meantime, as I say, I have had a request to stand it.

An hon. MEMBER: Yes.

Mr. ELDERKIN: Perhaps we could discuss it this afternoon, Mr. Chairman.

The CHAIRMAN: Yes.

Mr. ELDERKIN: Unless there are some further explanations that I can offer at this time.

The CHAIRMAN: The specific comments, when we had our public hearings with respect to this clause, came from representatives of certain chartered banks

who were concerned about their holdings in companies such as RoyNat, Kinross and so on.

Mr. ELDERKIN: This covers it.

The CHAIRMAN: What would be the effect of this newly proposed amendment?

Mr. ELDERKIN: They are covered. Those are all right. RoyNat, Kinross, UNAS will all fall in this group.

Mr. LAMBERT: But then this is only a pragmatic approach. It so happens that their holdings today are such. Fifty per cent is an arbitrary figure.

Mr. ELDERKIN: No, 50 per cent is not an arbitrary figure, if I may say so, Mr. Lambert. It is the difference between a corporation controlled by the bank under the definition in the Bank Act. In the Bank Act definition you will find a corporation controlled by the bank is a corporation in which the bank owns more than 50 per cent of the shares. This is the dividing line which was used here for the same purpose.

Mr. LAMBERT: Is that in a Canadian company?

Mr. ELDERKIN: It is in any company.

Mr. LAMBERT: What about a case where Canadian banks, through some means or other, were able to acquire the whole voting stock of some American state banks?

Mr. ELDERKIN: We have no objection to them acquiring 100 per cent ownership in a foreign subsidiary if they wish to. They have it now.

Mr. LAMBERT: Well, I know they had, but we are now acting on a cut-back.

Mr. ELDERKIN: No, we are not as far as foreign ownership is concerned. This clause deals entirely with Canadian corporations.

Mr. LAMBERT: Well, that is what I wanted to confirm. This deals entirely with Canadian corporations.

Mr. ELDERKIN: That is right.

Mr. LAMBERT: You have also, though, a provision for a foreign holding company coming in.

Mr. ELDERKIN: We have to have a provision for a foreign holding company coming back in because otherwise all that would be necessary would be for the bank to set up a foreign subsidiary and buy the shares. This has to be protected in the same way, and subclause (2) provides that you have to add the two holdings together.

The CHAIRMAN: We are not intending to complete our consideration of this clause this morning, although we have certainly have had a thorough discussion. If there are no further questions immediately, we can stand it now and leave it until this afternoon for further discussion.

Mr. LAMBERT: Yes. Would you look at this proposition in the interval, Mr. Elderkin. Where the bank is acting as a trustee—

Mr. ELDERKIN: No, they could not.

The CHAIRMAN: The next clause that was stood is clause 88.

(*Translation*)

The CHAIRMAN: Mr. Clermont?

Mr. CLERMONT: In clause 88, there is coverage only for products delivered, is that right? The producer can deliver his product to wholesalers, to a broker in agricultural products? The producer's perishable goods are not covered, is that right?

(*English*)

The CHAIRMAN: Mr. Elderkin, did you follow that.

Mr. ELDERKIN: I am afraid I did not follow it, Mr. Clermont. Would you mind repeating it? We are talking about—

(*Translation*)

Mr. CLERMONT: We are speaking of article 88, paragraph 5 (b); a claim of $5,000 for sums due by a manufacturer, so if the producer of perishable goods delivers his products to a wholesaler, a shipper or a broker in agricultural products, he has no protection, has he?

(*English*)

Mr. ELDERKIN: That has nothing to do with the bank, Mr. Clermont. If the shipper becomes insolvent, and the bank has taken security on the goods of the shipper, then this claim would stand up.

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, section 88 (b), mentions only the perishable goods delivered to a manufacturer, the farmer may deliver to other than a manufacturer, he may take them to a wholesaler.

The CHAIRMAN: No.

(*English*)

No, his point is this. Subclause (5) begins:

> Notwithstanding subsection (2) and notwithstanding that a notice of intention has been registered pursuant to this section by a person giving security upon property under this section,—

However, subclause (5) (b) refers only to a manufacturer. Now, clause 88 (1) (a) refers to wholesale purchasers, shippers, dealers and manufacturers, and I gather that Mr.Clermont's point is that there may or may not be some conflict between these two portions of clause 88 because subclause (5) begins by talking about such a person, and the paragraphs under subclause (5) refer only to a manufacturer. I think that is what Mr. Clermont is drawing to our attention.

I do not think it is our intention to try to complete our consideration of clause 88 this morning. Perhaps we might—

Mr. ELDERKIN: I am not quite sure I see the contradiction. In fact, it mentions giving security upon property by a person, but then it goes on to specify what person is involved in paragraph (b), and that is a manufacturer.

The CHAIRMAN: Your point is that clause 88, subclause (5) with respect to growers is limited to giving them a certain priority against manufacturers—

Mr. ELDERKIN: Yes, manufacturers.

The CHAIRMAN: —rather than to manufacturers, wholesale purchasers and shippers.

Mr. ELDERKIN: Yes, this is the intent of it.

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, why does paragraph 5 provide the same protection for products sent to a wholesaler, delivered to a wholesaler?

(*English*)

Mr. ELDERKIN: Well, Mr. Clermont, I cannot answer that question. As far as I can remember—and the Chairman may help us on this as he sat in with Mr. Whalen at times—this was really intended orginally to take in products of the soil which were delivered to a manufacturer for processing.

An hon. MEMBER: To a processor.

Mr. ELDERKIN: Yes, to a processor, and this was all that was suggested at the the time.

(*Translation*)

Mr. CLERMONT: We had a brief from the Canadian Federation of Agriculture on the topic, and they expressed a reservation: why are products of the soil alone protected in regard to delivery, because the farmer delivers other than products of the soil. He has other products and perishable goods, poultry, for instance—I have already mentioned, Mr. Lambert, that I am not a lawyer, so I cannot go into the point as fully as I should like. There are loans on notice and this seems to me getting around article 88.

(*English*)

The CHAIRMAN: Your point, Mr. Elderkin, is that the intention of the clause really is to cover manufacturers. The complaint which led to the clause being placed in the bill originated with the producers of cash crops which were delivered to manufacturers who were the processors of these crops.

Mr. ELDERKIN: Yes. My information, from discussions with the sponsor of this particular amendment, is that primarily we are talking about the processing of vegetables and fruits here, and this is where there have been some bankruptcies in recent years. This particular clause is an attempt to protect the growers who ship their crops to manufacturers. We have never had any representations and I do not think even the Federation of Agriculture brought up any representation as far as shippers are concerned. I do not recall that they did, and all I can say is that I think it is drawn in a way to cover particular cases that Mr. Whalen was looking for at the time.

The CHAIRMAN: I think, in fairness to Mr. Whalen, he might have proposed a little more broad coverage with respect to amounts and so on.

Mr. ELDERKIN: Yes, I think he would, have quite possibly, but—

(*Translation*)

Mr. CLERMONT: You mentioned,—if I refer to the brief submitted by the Canadian Federation of Agriculture, I see:

> The first problem is that of perishable goods delivered; livestock do not come into this.

(*English*)

Mr. ELDERKIN: Yes, that is true, Mr. Clermont, but that is another matter. What you brought up earlier was whether this should apply not only to manufacturers, but to shippers, and so on. Now, the other point brought up by the Federation was the question of whether it should not cover all farm products, including poultry and anything else that a farmer sold. In this case, you would have to go far beyond this because, for instance, on a poultry farm—I do not know whether you would say they sell to a manufacturer or not; they sell to a factory which kills and dresses, I suppose. But I think the Federation's only point here, Mr. Clermont, is that they thought they would like to have it broadened to cover all products of a farmer. I think I am right in that respect.

The CHAIRMAN: I will invite further discussion on clause 88 at this time. Mr. Lambert, I understand you wish to have further direct contact with Mr. Ryan in respect to the legal question you raised, and this aspect—

Mr. LAMBERT: No, I am quite satisfied with the opinion, although there again there may be contrary views.

Mr. ELDERKIN: Yes, this was actually discussed with the counsel for the Superintendent in Bankruptcy, Mr. Lambert, and I think the legal opinion is actually as much his as it is Mr. Ryan's.

Mr. LAMBERT: Well, I want to be sure that it is clearly understood the priority that was given to the producer is something over and above the secured creditor—which is the bank—and that if the bank has to pay out to this producer creditor it cannot subrogate it to the extent that it has paid it, and ranks among the unsecured creditors, presumably, subject to the Crown preference.

Mr. ELDERKIN: Yes, that is my understanding. It is what I think is referred to in the opinion as a priority within a priority.

The CHAIRMAN: Are there further comments or discussions with respect to Clause 88 at this time? Mr. Clermont?

(*Translation*)

Mr. CLERMONT: Mr. Chairman, in regard to my remarks, the Minister is coming here to-morrow.—

The CHAIRMAN: Particularly, because I think our colleague: Mr. Comtois or Mr. Fulton, wish to continue comments on section 88 and the Minister could not be here this morning, so we are agreed that these articles will be stood over until Wednesday afternoon.

(*English*)

If there is no further discussion on Clause 88 today—

Mr. ELDERKIN: Mr. Chairman, I was just going to ask whether the remainder of clause 88 is now satisfactory?

The CHAIRMAN: The problem is that Mr. Fulton indicated a desire to make some comments on clause 88. Unfortunately, he did not communicate to me the particular aspects which interested him, and I think in fairness to him we will have to have it stand until tomorrow afternoon unless he is able to be with us later today. I am not in a position to say whether he will be able to do so.

Are there any other comments on clause 88 at this time?

Mr. MACDONALD (*Rosedale*): I gather Mr. Ryan will be here tomorrow?

Mr. ELDERKIN: I will try to get him here this afternoon, Mr. Macdonald, if he is free.

Mr. MACDONALD (*Rosedale*): I would be interested in hearing his opinion of where clause 88 stands in relation to a pre-existing floating charge under a floating charge debenture.

The CHAIRMAN: You do not have to say anything about that, Mr. Elderkin. Chartered accountants have become quite accurate—

Mr. MACDONALD: Yes, but perhaps he might say something about it to Mr. Ryan, though.

The CHAIRMAN: Oh yes, that is what I meant; at this meeting now. We will move along then to clause 89.

Mr. ELDERKIN: Mr. Chairman, clauses 89 and 90 are stood because they are relative to clause 88.

The CHAIRMAN: All right, they will in that category.

On Clause 91—*Powers re interest.*

The CHAIRMAN: We come next to clause 91. I believe clause 91 is one of the clauses on which the Minister wishes to comment in his appearance tomorrow afternoon or, at least, a portion of it. We can still deal with this particular amendment.

Mr. ELDERKIN: Well there are several amendments to clause 91. The first one is to subclause (3) and the purpose of this amendment is simply to strike out—

The CHAIRMAN: Now, this amendment is found in the first booklet?

Mr. ELDERKIN: Yes, in the first booklet. The purpose of this is simply to strike out paragraph (a) which is on line 36 and 37 because that date is past; so (a) is spent before it is enacted.

The second one which appears on page 75, lines 22 to 24, brings up the point, I think, that Mr. Fulton raised and which we need to take care of because in some provinces an equity of redemption actually replaces the second mortgage. There is no such thing as a second mortage in British Columbia, for instance and, therefore, we have brought in here an equity of redemption; so, in other words, the amendment covers both mortgages and an equity of redemption as it is worded.

Mr. LAMBERT: This arises out of the fact that in British Columbia, I believe there is a conveyance of property under the mortgage whereas, in provinces like Alberta, it is merely a charge on the property; there is not a conveyance.

Mr. ELDERKIN: That is right, and the one becomes personal property as I understand it. The next amendment—

The CHAIRMAN: This is in the second booklet?

Mr. ELDERKIN: It is in the second booklet, Clause 91 (4). At the top of page 75 we had a provision which referred only to discounts on a loan, but where term loans are made for a fixed period this amendment would provide that the rate carries over for the term of the loan. There is really no other way to operate this very well, unless it is renegotiated. It may work to the advantage of the bank or

the customer, but it follows in the same sense as a discount. It is for a fixed term such as the situation where a consumer credit loan is for a fixed term, and the rate would prevail through the term.

The other one is—

The CHAIRMAN: The difference between the draft bill and this amendment, therefore, is that where there is a term loan the rate continues for the term?

Mr. ELDERKIN: That is correct; whether is goes up or down.

Mr. MONTEITH: Whether the ceiling goes up or down, or whether what goes up or down?

Mr. ELDERKIN: Yes, whether the ceiling goes up or down, the rate for which the contract was made at the time continues. Of course, you could not do anything about this, on discounts, because the discount has already been paid and there is no provision. We had this in before for discounts and now this amendment takes the remainder of what you might call "term" advances.

The next one is clause 91 (9) and (10) and—

The CHAIRMAN: This is in booklet 1?

Mr. ELDERKIN: That is in the old one. This is simply a redrafting of subclause (1) of clause 93 as amended and is a repeat of the present clause 92; subclause 112 (1) provides for a return, and subclause (1) of clause 151 for a penalty. The latter two, of course, will be spent when the maximum loan rate is abolished. This is entirely a redrafting operation, nothing else.

The CHAIRMAN: Gentlemen, do you think it would be practical to try to deal with certain portions of clause 91? The Minister is going to be here tomorrow afternoon with respect to it. Perhaps we will do the whole clause at once. I think that would be more practical. Clause 91 is stood until Wednesday, although I am sure if there are any further questions for Mr. Elderkin at this point we will certainly be able to accept them.

Mr. ELDERKIN: Clauses 92 and 93, of course, are the disclosure clauses.

Mr. MONTEITH: May I just enquire, Mr. Chairman, whether the Minister is coming before us tomorrow afternoon on clause 91?

The CHAIRMAN: On the whole thing.

Mr. MONTEITH: So we are standing clause 91?

The CHAIRMAN: That is right.

Mr. ELDERKIN: The minister is coming before you on all the clauses that are stood up to that time.

On Clause 92—*Charges on discounts.*

On Clause 93—*No charge on government cheques.*

Mr. ELDERKIN: Clauses 92 and 93 are the disclosure clauses. They are in the former booklet. There are no changes. They were—

The CHAIRMAN: This replaces the existing—

Mr. ELDERKIN: This is completely new, Mr. Chairman, and it relates entirely to disclosure. The only thing that is not new in it is that we moved subclause 92(3)—that is the prohibition on service charges—into this clause where it now

would be more properly placed. The rest of it is new, and in that particular provision we have now included that, except by express agreement between the bank and the borrower, there cannot be a compensating balance, if you wish to call it that, as a condition for making a loan or advance. That is new.

I will run down the rest of it: The new subclause (1) was just defined. I think I explained this to some extent before and perhaps it is repetition. In effect it says that any charge in connection with the making of a loan—whether it is a service charge and interest or whatever it is—shall be disclosed to the borrower where possible in a rate per annum and where, as in the question of a demand loan, this is not possible, by at least the total amount of charge in dollars and cents. As in the case of the provincial legislation which has preceded this in Nova Scotia and Ontario, it leaves some discretion to the Minister regarding how these rates will be calculated. I think he mentioned—if he did not I did—that they propose to calculate them on the basis of the normal annual rate and it is intended that the federal Department of Insurance will draw up actuarial tables to be used with the Minister's regulations. I think that just about covers it, Mr. Chairman.

The CHAIRMAN: Mr. Lambert?

Mr. LAMBERT: As in other matters, we have the making of regulations by the Minister which will determine the manner in which the cost of borrowing shall be disclosed to all borrowers and, in fact, the heart and soul of this will be by way of regulation. When are they going to be published, and how?

Mr. ELDERKIN: They have to be published—

Mr. LAMBERT: Where?

Mr. ELDERKIN: Regulations will be by Governor in Council—really by the Minister—but they will have to be published because all the banks will have to be notified. They will be pretty extensive, Mr. Lambert, because they will include all of the tables for calculation of the effective cost. Actually this follows both of the provincial acts which have been passed to date and it leaves the Minister in a position where he has to specify regulations, if you will, with respect to various types of loans. For instance, in the case of demand loans he would have to say that it was not necessary to show a rate of interest because it is not possible to calculate it. The closest you can come to this is to say that if the loan existed for one year the rate of interest would be so much, but this is not very valuable. Anyway, there is a provision here, as there is in the provincial act, that certain types of loans may be exempted, but this also has to be by regulation.

Mr. LAMBERT: I think I will have to talk it over with the Minister. These regulations should come back to this Committee when they are made, the same way as for deposit insurance. That is not a point for you and I do not know that it is a point for the legislation, but I am hopeful the Minister will feel as well disposed this time as he was on the Deposit Insurance bill.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask a question, Mr. Elderkin? This amendment provides that these regulations shall be in effect except where there has been an agreement between the borrower and the lending institution. Is that correct?

Mr. ELDERKIN: No; the only part where the agreement between the borrower and the lender comes into effect is whether or not a charge shall be made.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I see, but it still has to be expressed in this way.

Mr. ELDERKIN: Yes, it still has to be expressed.

The CHAIRMAN: Mr. Elderkin, what about the formulae raised when we discussed this previously to the effect that in many cases the corporation or partnership is of no greater size than the sole proprietorship and in that regard they may find it useful to have the protection of subclause (3), just as much as the sole proprietor?

Mr. ELDERKIN: Perhaps this matter can be left over. I think the Minister discussed it rather fully when he was before the Committee previously. Originally the whole object of the exercise, both here and in the provinces, concerned consumer credit. The broadening of this particular amendment to cover all types of loans goes farther than the provincial legislation does at the present time. I think it has been the objective of all the consumers associations and so on, to have legislation dealing with the individual, and that is the reason this was drawn accordingly.

The CHAIRMAN: I do not want to single out anybody, but suppose some great entrepreneur such as E. P. Taylor went to the bank to negotiate a loan for some vast enterprise, the bank would have to fulfil the requirements of subclause (3) with respect to a written agreement, whereas if little Joe Doakes, who had spent $300 or $400 to incorporate a shoemaker shop, went to negotiate a small loan, he would not be under this clause.

Mr. ELDERKIN: If he was incorporated?

The CHAIRMAN: Yes

Mr. ELDERKIN: That is right.

Mr. LAMBERT: Where do you draw the line on the corporations?

The CHAIRMAN: Well, that is an interesting point. I can see the difficulty, and I just wonder whether or not some thought had been or could be given to the Department working out some formula. It may be impractical, but it seems to me that—

Mr. ELDERKIN: This was discussed quite fully both before and after the Minister appeared before you, and it really would be extremely difficult to—

Mr. LAMBERT: I think possibly I have an answer. In the small incorporated business there would likely be a personal guarantee, and I was wondering whether you have the disclosure when you take out the personal guarantee to the corporate loan.

Mr. ELDERKIN: We should ask the legal people, but I do not think the personal guarantee, Mr. Lambert, would fall within the wording of this clause.

Mr. LAMBERT: But this would really take care of the problem that has been raised by the Chairman, and it would necessarily also catch some bigger ones where, on a big line of credit, the bank saw fit to take personal guarantees from directors of a corporation. Well, so you have a few added cases. I can see, with regard to what Mr. Gray has said, where a large law firm, or two lawyers in a

rather small law firm on a small line of credit, are not shown the true cost of a loan. Or they might be auditors or anything, but if the auditors incorporate some form of accounting company they are not shown it, but as individuals they would be given this information. It strikes me that when it comes to a partnership or a small incorporated company, it is the standard practice to take a guarantee from the directors who are really the owners of it. It is ordinary, common, good business practice to do it. I do not see that at this point you could not require the disclosure.

Mr. MONTEITH: My apologies for just coming in and not being up to date in the conversation, but, what have we been discussing—the fact that on certain types of loans the full charges must, but on certain other types they will not be necessarily be disclosed? Well, what is the division?

The CHAIRMAN: It is not so much with respect to the type of loan as the individual.

Mr. MONTEITH: The individual making the loan? All right; the type of individual or the type of corporation making the loan. What is the division?

Mr. ELDERKIN: The division at the present time, Mr. Monteith, is simply that this clause as it is worded now applies only to loans made to individuals.

Mr. MONTEITH: Do you mean in the present act or in the new one?

Mr. ELDERKIN: Oh, no. There is nothing in the present act; it is a completely new clause.

Mr. MONTEITH: And this applies only to individuals, but not to corporations.

Mr. ELDERKIN: Yes; only to loans made to individuals.

The CHAIRMAN: And not to corporations or private partnerships.

Mr. MONTEITH: Not to corporations, partnerships or associations; why not?

Mr. ELDERKIN: Well, as I said a few minutes ago, this whole exercise started out as a consumer credit operation. The provincial legislation refers only to individuals because it refers primarily to consumer loans. As I mentioned a few moments ago, this is what the consumer credit associations have been after for some time.

Mr. MONTEITH: Well, if it is good for one, why not the other?

Mr. ELDERKIN: Quite frankly—and this is only partly true, perhaps, in view of the Chairman's remarks—the corporation is presumed to be a sophisticated borrower. Here we are trying to protect the individual who is an unsophisticated borrower. Ninety per cent of this would apply to consumer credit. It will apply to mortgages to individuals, too, as it is worded—mortgage lending, which, under the Nova Scotia Act, I believe is a completely separate piece of legislation with a tolerance which is not available in this particular legislation.

The CHAIRMAN: Is there further discussion or comment on the amendment?

Mr. LAMBERT: Yes, I think perhaps we might hold up this one for the Minister. There is a question on the point that you raised which is not a point that Mr. Elderkin can resolve.

The CHAIRMAN: It may be technically impossible to deal specifically with the point I raised, yet there may be ways of dealing with it. Perhaps you could

clarify one other thing. Is the amendment in the booklet exactly the same as the text of the amendment which was tabled when the Minister appeared before us to propose it, or have there been changes?

Mr. ELDERKIN: No.

The CHAIRMAN: It is exactly the same as the original?

Mr. ELDERKIN: That is right.

Mr. WAHN: I have another question on this clause, Mr. Chairman, and that is whether any consideration was given to making the determining feature the size of the loan rather than the nature of the borrower.

Mr. ELDERKIN: No.

Mr. WAHN: It seems to be obvious—

Mr. ELDERKIN: Actually it can be done under the provision of clause 45(d), Mr. Wahn. I can give you an example of this. The Nova Scotia regulation is that it does not apply to loans over $25,000, but that is done by regulation, not by legislation. The same thing could be done here by the Minister's regulations.

Mr. VALADE: This will affect the charges more than the interest of loans.

Mr. ELDERKIN: Well, yes. The total cost of the loan is a combination of the two, Mr. Valade.

Mr. VALADE: But it affects the charges more than the interest itself.

Mr. ELDERKIN: Yes, to this extent, if I gather what you mean: All the charges under these circumstances will have to be disclosed.

Mr. LAFLAMME: In terms of interest?

Mr. ELDERKIN: Well, in terms of cost as a percentage.

An hon. MEMBER: On small loans, the cost of borrowing.

Mr. VALADE: Can the charges be added to the interest or just—

Mr. ELDERKIN: Yes, as long as the total is disclosed as a percentage.

Mr. WAHN: In view of subclause (5)(d) that you refer to, Mr. Elderkin, subclause (2) is really unnecessary, is it not?

Mr. ELDERKIN: It could be eliminated, Mr. Wahn. You are quite right. This might be the solution that you are looking for.

The CHAIRMAN: Perhaps we might take this under consideration. This is the Nova Scotia approach.

Mr. ELDERKIN: Well, the Nova Scotia approach is to individuals, but with respect to (5) (d), there is a similar one in the Nova Scotia—

The CHAIRMAN: They set a limit on the size of loans—

Mr. ELDERKIN: Yet, but there again, in the Nova Scotia Act it is only on individuals.

The CHAIRMAN: I see.

Mr. ELDERKIN: Quite frankly, as Mr. Wahn mentioned, subclause (2) can be taken out and left to regulation.

The CHAIRMAN: Perhaps clauses 92 and 93 could be stood and you could have this considered. The next clause before us is clause 96.

On clause 96—*Bank not bound to see to trust in deposits.*

Mr. ELDERKIN: I am not sure who was interested in this particular one. This is a very old section. It depends—

Mr. CLERMONT: This was brought up by Mr. Lambert or his group.

Mr. LAMBERT: Did you clear up the old business of the proposed amendments to the Mechanics' Lien Act in various provinces? It applies, I believe, in British Columbia and Ontario. The Mechanics' Lien Act in those two provinces requires the creation of a trust in favour of workmen and suppliers of materials in moneys payable to a contractor, and where the bank has taken a general assignment of the proceeds under a building contract they have, in many instances, been caught by the trust. I know that at present this particular feature is under examination in the province of Alberta and it is causing some considerable comment as to whether it should or should not. Now, clause 96 (1) almost would be a contradiction of the provision in that Mechanics' Lien legislation.

Mr. ELDERKIN: I think the banks have had some rather unpleasant experiences under that legislation, both in British Columbia and particularly in Ontario, and some of the other provinces, I believe, are looking at it very closely now for the possibility of—

Mr. LAMBERT: Clause 96 (1) says:

> The bank is not bound to see to the execution of any trust, whether express, implied or constructive, to which any deposit made under the authority of this Act is subject.

If the bank receives a cheque, pursuant to the filing of the assignment of the proceeds under a building contract, it has received a deposit and there is imposed on that deposit a certain trust. This section says that they are not bound to see to it.

Mr. ELDERKIN: They are not bound as far as receiving it is concerned, but I think the—

Mr. LAMBERT: It is not only bound to the execution of the trust. In that particular case execution of the trust, under the Mechanics' Lien Act, is the setting aside of moneys which are, in essence, payable to the workmen and the unpaid supplier of materials.

Mr. ELDERKIN: Perhaps the banks could answer this if I am not correct, but I believe they have taken the Mechanics' Lien Act of Ontario and British Columbia to override—if it is an overriding—and they have been caught on this on several occasions and have paid money which actually has been paid to them with respect to repayments of a loan, and which they have to pay out again because of the Mechanics' Lien Act. They do not consider that this particular section overrides the Mechanics' Lien Act. I think I am right in this.

The CHAIRMAN: Is there any further discussion on clause 96?

Mr. LAMBERT: Could we hear from the bankers association counsel in this regard?

The CHAIRMAN: Well, le me put it this way. I think the Committee agreed to conclude hearing from members of the public before we began our clause by

clause discussion. If the Committee agrees to make an exception in this case, I certainly would not object.

Mr. WAHN: Mr. Ryan would be the legal adviser to the drafter of the bill which is the one—

The CHAIRMAN: Perhaps we might handle it this way: those members interested might have some discussions with the Bankers Association counsel when we adjourn, and Mr. Ryan is going to be here this afternoon, I understand.

Mr. ELDERKIN: Yes, I am going to try to get him here this afternoon.

The CHAIRMAN: Clause 96 is stood until this afternoon.

Mr. LEBOE: Mr. Chairman, on this very point, it appears to me that because of public relations the banks are accepting this position without any legal position being established. Am I not right in this?

Mr. ELDERKIN: I cannot answer your question, Mr. Leboe. As the Chairman said, the general counsel for the Bankers Association is here and some people might want to talk to him to find out whether they feel obligated or whether they are doing it out of public relations. I cannot answer your question.

The CHAIRMAN: We move next to clause 124, and an amendment is proposed in booklet 2.

Mr. CLERMONT: I move that Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 5 to 8, inclusive, on page 91 thereof and by substituting therefor the following:

"assets;

(d) the indebtedness evidenced by a bank debenture is subordinate in right of payment to the prior payment in full of the deposit liabilities of the bank and such other liabilities of the bank as are mentioned in that debenture or in any document under which it was issued; and

(e) the amount of any penalties for which the bank is liable shall be a last charge upon the assets of the bank."

Mr. MACDONALD (*Rosedale*): I second the motion.

The CHAIRMAN: Mr. Elderkin, perhaps you could explain this for us.

Mr. ELDERKIN: The purpose of this amendment, Mr. Chairman, is to clarify the priority of debentures in case of insolvency. The point had been raised before that possibly there was some vagueness in the question of the priority and this clarifies it to the extent that they are definitely subordinate in the right of payment to the prior payment in full of deposit liabilities and such other liabilities of the bank as are mentioned in the debenture. I think this is just a clarifying amendment, Mr. Chairman, which has been approved.

The CHAIRMAN: Are there any discussions or questions on the amendment? If not, I will ask if the amendment carries?

Some hon. MEMBERS: Agreed.

Amendment agreed to

Clause 124 as amended agreed to.

On clause 137—*Statements not signed as required.*

The CHAIRMAN: We now move to clause 137.

Mr. ELDERKIN: That clause was stood at somebody's request. It refers to annual statements. I do not know why it is stood. Actually it passed in the Quebec Savings Bank Act and I am not quite sure who asked that this be stood, or why.

The CHAIRMAN: Is this with respect to penalty?

Mr. ELDERKIN: Yes, with respect to penalty.

Mr. MACDONALD (*Rosedale*): I wonder, Mr. Chairman, whether that was one of the penalty provisions you felt was not heavy enough? There was some disposition in one case to increase the penalty.

Mr. ELDERKIN: That might be it, Mr. Macdonald. I do not know; I have not been told. We are increasing some penalties in other ways, as far as that is concerned. If that is the reason I am sure there would be no objection from the Minister to increased penalties.

The CHAIRMAN: I think this is consistent with requests to stand other clauses because some comments were made about the level of penalty.

Mr. CLERMONT: Is this clause 137?

The CHAIRMAN: Yes, clause 137.

Mr. CLERMONT: I think it was requested by your group, Mr. Lambert. That is what I have here.

Mr. ELDERKIN: It was ringed on the original chart.

Mr. CLERMONT: I think Mr. Monteith requested that clause 137 be stood.

Mr. LAMBERT: I think that may be one of Mr. Fulton's, because I think he did clauses 39 and 137.

Mr. ELDERKIN: Well, we can hold it—

Mr. LEBOE: Would it be possible, Mr. Chairman, to find out whether or not this clause 137 has ever been acted upon to any extent?

Mr. ELDERKIN: It has not been acted upon in my experience, Mr. Leboe.

The CHAIRMAN: Well, referring to the chart, it is quite true that 137 was stood. We shall seek some further information.

On clause 138—*Agreements fixing interest.*

Let us move on to clause 138. An amendment is suggested here.

Mr. ELDERKIN: Clause 138 is the amendment on disclosure and the Minister would like to raise the penalty from $5,000 to $10,000.

Mr. LAMBERT: The minister's assessment indicates the cost of living.

Mr. ELDERKIN: Yes, the cost of living.

Mr. LAMBERT: Everything is double.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, while this concerns disclosure, it also concerns agreements between banks. Under the Combines Investigation Act there is no limit on the penalty which can be imposed. I wonder why we should not take off any upper limit here? The argument at the time of increasing

the penalties under the Combines Investigation Act was that the previous judgments really amounted to a licence to steal on the part of the parties combining, and I wonder why we do not put the banks under the same sanction here?

Mr. ELDERKIN: What governs the penalty, then? Is it left to the court to decide?

Mr. MACDONALD (*Rosedale*): It is left to the court to decide under the circumstances.

Mr. ELDERKIN: We have no such type of provision in the Bank Act, Mr. Macdonald. We have either specified penalties or an offence against the Act—one of the two—and at no place do we leave any of the penalties open to discretion.

Mr. LAFLAMME: Mr. Chairman, I suggest that there be some discretion because we might have what might be called technical offences. I think it is up to the courts to decide on the penalties.

Mr. LAMBERT: This is a tough one: "who knowingly—

Mr. ELDERKIN: That is right.

Mr. LAMBERT: —makes an agreement." There might be some difficulty in proving that the director, officer or employee knowingly made the agreement on behalf of the bank.

Mr. MACDONALD (*Rosedale*): I am subject to correction on this, but I think I am right in saying that basically the same requirement exists under the Combines Investigation Act, to establish *mens rea* that the—

Mr. LAMBERT: I do not doubt, Mr. Chairman, that Mr. Macdonald has a point, but I am sure it is open to the Crown to opt as to whether it will proceed under the Combines Investigation Act or under this particular act.

Mr. MACDONALD (*Rosedale*): No, I suggest that the Combines Investigation Act does not apply to banking operations, and unless we provide for this type of combine under the statute there will be no provision of the law that you can refer to.

Mr. LEBOE: Mr. Chairman, I would like to pose this question again. In the knowledge of the Inspector of Banks, how often has this clause been applied?

Mr. ELDERKIN: This is a brand new clause, Mr. Leboe.

Mr. LEBOE: Oh, this is a new clause?

Mr. ELDERKIN: A new clause suggested by the royal commission on banking and finance.

The CHAIRMAN: Mr. Elderkin, is there any question of whether or not the term "charges" includes the compensating balance?

Mr. ELDERKIN: I would think so. Definitely the charge is a cost.

Mr. WAHN: Who will be charged with the responsibility for enforcing this clause and making the necessary investigations?

Mr. ELDERKIN: My successor, thank goodness.

Mr. WAHN: I raise the question because this clause is rather similar to the original moral prohibition which was introduced over 70 years ago when the

Combines Investigation Act was first passed. It was found to be completely ineffective and over the years the Combines Investigation Act was made more and more complex, amendment was piled upon amendment, and a whole division of the Department of Justice was established to investigate and enforce the sections.

The clause I believe, is designed to prevent rate-fixing agreements or combines among the Canadian chartered banks. I am completely in favour of more competition among the Canadian chartered banks with regard to rates. I seriously question whether this is the way to do it. In the course of questioning, we asked Mr. Paton whether in the past any Canadian chartered banks to his knowledge had ever entered into an agreement of this sort, and he said, no, as I recall. I believe him, because any businessman or bank would have to have holes in his head to enter into an agreement to fix rates—this is just not the way it is done or ever would be done.

The CHAIRMAN: How is it done?

Mr. WAHN: Well, the follow-the-leader technique is how it is done.

Mr. MACDONALD (*Rosedale*): There must be quite a few across the country with holes in their heads then, because that is what the Combines Investigation Act has been about, is it not?

Mr. WAHN: I think the Combines Investigation Act now is a much more involved section; you have an enforcement branch. I think this clause is very little more than window dressing. I do not think it will be enforced, I do not think it can be enforced, and I think in a way we are misleading the public in putting a clause like this in the act. We want more competition between the Canadian chartered banks, but when we point to this clause as ensuring that competition, I think we are misleading the public.

The way to get more competition is not by a prohibition of this sort which cannot possibly be enforced. We have to have more chartered banks; perhaps there have to be restrictions on amalgamations—the type of amalgamations that have gone on in the past—which have reduced the number of chartered banks. There may be a number of ways of getting it, but a simple prohibition like this is not one. If I were to ask Mr. Elderkin if he could enforce this prohibition—I would not want to embarrass him by asking him that—I am sure he would have to say he could not possibly do so.

The CHAIRMAN: He could not in any event; he is retired.

Mr. WAHN: Well, presumably his successor could not. I am saying that I think this is a meaningless clause. As Culbertson said once when he opened with a two spade bid and his opponent doubled his opening two spades—this is an idle gesture. I think this clause is just an idle gesture in view of the experience we have had with the Combines Investigation Act. Rather than put an idle section in the act which is just misleading to the public, giving them a false sense of security, I think it would be better to delete the clause.

This Committee should make a strong recommendation that ways should be found to ensure more effective rate competition among the chartered banks. This may be through permitting foreign agencies, which was under discussion; it may be by facilitating the incorporation of chartered banks; there may be a number of ways of doing it. I think this clause is an idle, futile clause. Generally

speaking, when you put in a prohibition of this sort which no one really expects to obey, I think you are really doing a disservice to the administration of law. You breed a disrespect for law; people become cynical about it. It does not do a great deal of harm, I suppose, to have it there, but I do not think any of us really believe that there will be very many prosecutions and convictions under it. I could be wrong.

Mr. ELDERKIN: There are two points I think I might make, Mr. Wahn. In the first place, this clause is a recommendation of the royal commission on banking and finance. This is one of their strong recommendations. Secondly, even if, as you say, there was never a prosecution under it, I think it stands to reason that it is at least being put forward as an indication of parliament's views on these matters.

I am prepared to admit that, as somebody once remarked, you cannot stop two bank general managers talking over a game of golf; neither can you stop two general managers of oil companies talking over a game of golf. I do realize that it has been the practice in many cases to follow the leader in these matters, and I do not think any legislation is going to catch that sort of thing unless somebody is foolish. But I think it is a good section because I believe we would be remiss if the government did not follow this recommendation of the royal commission, and I think it is a definite indication to the banks of parliament's view of this matter.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I disagree with one of Mr. Wahn's point and agree with another. I am not prepared to accept his total write-off of the Combines Investigation Act structure which we had before—at least, what is implicit in his remarks. I think there has been considerable effectiveness under that act, which is a similar statute, and if there has been any question of want of effectiveness it is because not enough money has been spent on investigation and prosecution. I would like to see a criminal penalty very much like the Combines Investigation Act, and I suggest that perhaps we might add an amendment to this clause, not only deleting the ceiling on the penalty, but imposing responsibility for its enforcement on the Director of Investigation and Research under the Combines Investigation Act. Give the job of enforcing this to the person who, under the legislation of the government of Canada, already has the responsibility for controlling combines.

Mr. ELDERKIN: Mr. Macdonald, this matter has been discussed. I am offering an opinion, but I do not think you would get the Minister to agree with you. This is a service, and no services come under the Combines Investigation Act.

Mr. MACDONALD (*Rosedale*): I know that, sir, and I am not altogether sure that the Combines Investigation Act should not be amended to cover services as well.

Mr. ELDERKIN: Well, perhaps that time will come, but in the meantime I do not think you need to be concerned about the investigation end of it. I think the office of the Inspector General of Banks, as far as investigation of banks is concerned, has just as much and probably more powers than the Combines Investigation officers.

Mr. MACDONALD (*Rosedale*): I wonder if you have the same powers with respect to evidence as they are given under the—

Mr. ELDERKIN: They have all the powers in the world under the Inquiries Act.

Mr. MACDONALD (*Rosedale*): Excuse me, I do not think you have the same powers with respect to the proof of documents as they have under the Combines Investigation Act. I would propose to incorporate that regime so as to operate it against the banks under this provision.

Mr. ELDERKIN: All I can say is that the matter has been discussed and the Minister would not agree to it, as far as he is concerned.

Mr. MACDONALD (*Rosedale*): Perhaps, Mr. Chairman, you might reserve the clause.

Mr. LEBOE: Mr. Chairman, I would like an explanation of the word "service" used in connection with banks. Is that right?

Mr. ELDERKIN: Yes, it is considered a service. The Combines Investigation Act applies to commodities; not to services.

Mr. LEBOE: Well, money does not grow on bushes; you would not say that money is a commodity, then?

Mr. ELDERKIN: We are talking about a service, which is what the bank provides when it lends money.

The CHAIRMAN: Mr. Elderkin, your contention is that if the Crown were to adopt this clause, complaints could be made to the Minister of Finance who would refer them to you for investigation. Then, with the assistance of the Department of Justice, any prosecutions that have been justified by the investigation could be undertaken.

Mr. ELDERKIN: That is correct.

Mr. WAHN: Mr. Chairman, before we leave this clause, could I ask Mr. Elderkin whether we have ever had the Post Office Savings Bank in Canada? I am trying to think of some effective way of giving the banks some competition.

Mr. ELDERKIN: There is a Post Office Savings Bank now.

Mr. WAHN: Throughout Canada?

Mr. ELDERKIN: Yes; throughout Canada.

Mr. WAHN: I did not even know that. They cannot be very well advertised.

Mr. ELDERKIN: They publish their financial statement every month, I think, in the *Canada Gazette*.

Mr. WAHN: And I can go and deposit money in the post office in Canada?

Mr. ELDERKIN: That is right.

Mr. WAHN: How much interest do they pay on deposits?

Mr. ELDERKIN: I have forgotten what it is now. It was something in the neighbourhood of 4 per cent, if I remember rightly.

The CHAIRMAN: Did you know you could deposit?

An hon. MEMBER: Oh, yes.

Mr. ELDERKIN: As a matter of fact, it has been dwindling very rapidly over the past few years because it is not a very convenient way of making deposits.

You are supposed to send in your passbook and it has to be sent to Ottawa to be checked.

Mr. WAHN: The local post office cannot take deposits?

Mr. ELDERKIN: It can take deposits, but it cannot pay them out, except in very small amounts. You have to send in your passbook to Ottawa to see whether you still have that amount of money.

Mr. WAHN: The question really in my mind was whether this could not be made a more convenient service so that the higher interest rate being paid by the post office might induce the banks to pay a higher rate.

Mr. ELDERKIN: The post office wants to get rid of it; it is becoming a very unprofitable operation.

The CHAIRMAN: Clause 138 stands, and we move on to clause 145. There is an amendment in booklet No. 2.

Mr. CLERMONT: I move that Bill No. C-222, an Act respecting Banks and Banking, be amended by striking out lines 7 and 8 on page 97 thereof and by substituting therefor the following

"sions of that paragraph is subject to a penalty of one thousand dollars a day for each day in which the violation"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: This concerns the penalty with respect to a violation of clause 75(2)(g) and it raises it from $500 to $1,000 a day.

The CHAIRMAN: Are there any questions or comments on the proposed amendment? I ask now whether the amendment carries.

Some hon. MEMBERS: Carried.

Amendment agreed to.

Clause 145 as amended agreed to.

On clause 151—*Violation of interest provisions*

The CHAIRMAN: Next we move to clause 151. In booklet 2 there is an amendment to this clause as well.

Mr. ELDERKIN: These are amendments to penalties on violation of interest disclosure and service charges. If you are standing clauses 91, 92 and 93 this will have to stand, too. It is just possible there might be some references that will have to be changed; that is all.

The CHAIRMAN: Yes, clause 151 stands. Gentlemen, it is five minutes to one. What is your desire? Shoudl we adjourn and resume at 3.45 as scheduled? I think we can dispose of some of the other clauses and schedules, and perhaps some of the Quebec Savings Bank Act clauses as well. We shall recess until 3.45.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I shall now call our meeting to order. There were several matters stood over until this afternoon. We have Mr. Ryan with us this afternoon. Perhaps, Mr. Lambert, we could move immediately to the point which you have raised with respect to mechanics' liens.

On clause 96—*Bank not bound to see to Trust in deposits.*

Mr. LAMBERT: Yes, Mr. Chairman. Mr. Ryan, clause 96 states that the bank is not bound to see to the execution of any trust, whether express, implied or constructive, to which any deposit made under the authority of this Act is subject. I am concerned about the implications of this clause vis-à-vis the existing provisions of the Mechanics Lien Act of certain provinces and, indeed, some contemplated acts, whereby funds payable to a contractor as a result of construction—payable to him by the owner or the mortgage company—are affixed with a trust in favour of unpaid workmen within statutory limits and for unpaid suppliers of material. Do you know of any possible changes in those acts and how they would affect this particular provision.

Mr. J. W. RYAN (*Director, Legislation Section, Department of Justice*): Mr. Chairman, Clause 96, subclause (1) is a fairly standard provision with regard to the duty arising under equity, Mr. Lambert, wherein a person paying out money, who has notice of the existence of a trust, might be charged with responsibility to ensure the carrying out of the trust beyond the payee. I will give you an example. If, in the circumstances given, the contractor is known to the bank to be a trustee of funds, the bank might, apart from this provision, be under a duty, in equity, to see that the money gets to the beneficiary of the trust. The clause protects the bank against that particular duty. It is a standard provision and you find it also in statutes with respect to shareholders and a company. You will find the same type of provision in section 34 of the Canada Corporations Act. There is also in an earlier clause of the Bill (clause 58), a provision relating to shareholders in the same sense. The provision is a shield, not a sword, for the bank, and it protects it against that particular equity arising where they have notice of a trust in respect of moneys on deposit.

Mr. LAMBERT: Mr. Chairman, I am wondering how the term "equity" applies in an unpaid trade account? I am thinking particularly of a situation where a contractor is being financed at the bank. Say, he is a merchant builder; he enters into a line of credit with the bank, and he gives an assignment of funds, arising either from the owner or from the mortgage companies, to the bank as security for the line of credit that he has obtained. Then, from time to time, payments are made either by the owner or through the mortgage company to the contractor, who deposits the money. The payments are either made through him or directly to the bank, if the bank has filed its notice of assignment. Yet the Mechanics' Lien Act directs the bank to recognize that there will be a trust in favour of unpaid workmen and unpaid suppliers of material. The setting aside of such money, I would suggest to you, is the equivalent of seeing to the execution of any trust, whether express, implied, or constructive, which, by clause 96, the bank is told it can disregard.

Mr. RYAN: The money in the hands of the contractor is impressed by provincial law with a trust. If the money is deposited by the contractor in the bank and he writes a cheque on it—for example, the bank would honour the cheque—and would not be concerned thereafter. The bank is protected by this section from being required to ensure that the payment to the contractor gets to the beneficiary of the trust under that provincial law.

This is a different matter from the beneficiary coming in and, in proper form, asking for the trust money from the bank.

Mr. LAMBERT: I disagree with you, Mr. Ryan, in that there have been a number of cases in this province and in British Columbia, where the bank

appropriated unto the indebtedness to it the funds that were in the account. They had to restitute; they were forced to do so by action at law.

Mr. RYAN: That is right.

Mr. LAMBERT: And they had to restitute in favour of the beneficiary of the specific trust, either a workman or the supplier.

Mr. RYAN: That is right. Would that not be a matter of following the assets, Mr. Lambert? That relates to a different problem. If there is no notice of the trust, there would be no duty in equity on the bank. However, if there is notice, then there would be, in the absence of this clause, this additional duty to ensure that the trustee behaves properly. I believe the purpose of clause 96(1) is to remove the additional duty.

Mr. LAMBERT: But this clause says:

> The bank is not bound to see to the execution of any trust, whether express, implied or constructive, to which any deposit made under the authority of this Act is subject.

Mr. RYAN: That is right. The same type of situation develops vis-à-vis a company and its shareholders—on the payment of dividends and other amounts owing to the shareholder. The section in the Canada Corporations Act is:

> The bank is not bound to see to the execution of any trust, whether express, implied or constructive—

in respect of any share. But there is no such duty in equity, if there is no constructive or actual notice. As I say, the clause does not go beyond the duty of following a payment to make sure that the trust money is properly dispersed by the trustee. This is the protection that is intended to be given by clause 96(1) and not any more.

Mr. LAMBERT: All I can say is that in a number of provinces this is windowdressing, when you have that Mechanics' Lien Act.

Mr. RYAN: I think you may be talking about a different situation: where, for instance, a contractor has borrowed from the bank and is using trust moneys to repay the bank, that is a different situation from the payment out of a deposit, or the payment to a shareholder who appears to be properly entitled to money but who is only a trustee. In that case, the bank does not have to go beyond the trustee to ensure that the money is properly dispersed by the trustee or that he carries out his duties.

Mr. MORE (*Regina City*): The purpose, Mr. Ryan, of subclause (1) is that the bank is not responsible to police the trustees against fraudulent operations.

Mr. RYAN: That is right; that is the purpose of these provisions, and they are standard in the statutes.

The CHAIRMAN: Shall clause 96 carry?

Clause 96 agreed to.

The CHAIRMAN: Now let us move back to clause 39. This clause was stood because Mr. Fulton wished to make some comments.

An hon. MEMBER: Can we leave it for now, Mr. Chairman; Mr. Fulton will be back tomorrow.

The CHAIRMAN: Fine; I just wanted to make sure that this was not something we could deal with today. Now clause 76, I believe, is next.

Mr. CLERMONT: Was clause 89 stood?

The CHAIRMAN: Yes, clauses 88, 89 and 90 were stood.

Mr. ELDERKIN: Mr. Chairman, I asked that clause 76 be stood this morning, because it needs to be re-drafted. Would you be good enough to leave it until tomorrow?

The CHAIRMAN: All right. I have certain notes here which I have marked for Tuesday afternoon and perhaps I am not reading my writing too well. What about clause 137?

Mr. ELDERKIN: I believe was another one that Mr. Fulton asked to be stood. I do not know what that one was stood for.

The CHAIRMAN: Well, it is a very small clause.

An hon. MEMBER: If he is not here tomorrow we can carry it.

The CHAIRMAN: We will stand clause 137 until tomorrow. Again, Mr. Fulton wanted to make some comments with respect to clauses 88, 89, and 90, but there may be some matters that you wish to discuss with Mr. Ryan.

On clause 88—*Loans to certain borrowers and security.*

On clause 89—*Priority of bank's claim.*

On clause 90—*Conditions under which bank may take security.*

The CHAIRMAN: Mr. Macdonald, would you begin.

Mr. MACDONALD *(Rosedale):* I believe that my question this morning with respect to security priorities under clause 88 probably percolated through to Mr. Ryan. My specific question this morning was the relative priority of clause 88 security and that of a floating charge. Perhaps I could give you several situations and then get your comment on them, Mr. Ryan.

First, if a debenture was duly filed in accordance with the Ontario Corporations Securities Registration Act, prior to the date of filing of notice of intention to give security under clause 88, which then, in your opinion, has the priority?

Mr. RYAN: I would assume, Mr. Chairman, that the first registered security would have priority under those circumstances.

Mr. MACDONALD *(Rosedale)*: Then floating charge debenture would have security and it would continue to have priority security, even over the moving body of assets that were received by the corporation?

Mr. RYAN: I would think so. However is it not a fact of commercial life, that these debentures make provision for obtaining a loan and releasing their priority in that respect for the purpose of floating charges? Otherwise there would be a great deal of difficulty in obtaining bank loans.

Mr. MACDONALD(*(Rosedale)*: It may be often, but it is not invariable. Your view would be that the bank would stand second in respect of clause 88 as it pertains to a floating charge.

Mr. RYAN: That would be my view.

Mr. MACDONALD *(Rosedale)*: And any other more specific securities, such as a chattel mortgage or a conditional sale agreement, if it was already on the title, would take priority over clause 88.

Mr. RYAN: I would assume so.

The CHAIRMAN: Mr. Lambert?

Mr. LAMBERT: Mr. Chairman, on that point I think it likely that Mr. Macdonald would agree that under the chattel mortgage the new owner in title is the mortgagor and then the assignment would be charged against the property in favour of the bank?

Mr. MACDONALD (*Rosedale*): That is a good point, and equally with the Conditional Sales Act. However, whatever my personal opinion might be, I wanted to get Mr. Ryan to say it.

Clause 86 says that the bank as the holder of a warehouse receipt, is put in the same position as the owner of the goods, wares, and merchandise, and clause 88(2)(c) puts the bank, as beneficiary of a security under clause 88, in the position of having the same rates, rights, and powers as if the bank had acquired a warehouse receipt or bill of lading. This then would make the bank the owner of goods, wares, and merchandise, under the terms of the said statute.

Mr. RYAN: I will have to plead a little time on that one; my law merchant is rusty.

Mr. MACDONALD *(Rosedale)*: Notionally then, at least you would have two owners; you would have the manufacturer and you would have the bank which is declared under the Bank Act to be the owner. The question is, should someone dealing with the manufacturer, in every instance, get a waiver from the bank of its security under clause 88? I will leave that question with you.

Is it your opinion that clause 88 constitutes notice to the world of the bank's security claim? What about a bona fide purchaser for value, or a securing party coming in without actual notice of clause 88?

Mr. RYAN: I think the registration would constitute notice of the security.

Mr. MACDONALD (*Rosedale*): So that someone takes it at their peril if they fail to make the appropriate clause 88 searches?

Mr. RYAN: That is the situation as I understand it.

Mr. MACDONALD (*Rosedale*): Equally, in connection with the bank in its status, as I put to you before, as the owner of the goods, presuming that the manufacturer delivers goods—and this is really the same question—to a subsequent purchaser, at what stage does clause 88 cut off in so far as it relates to the goods? What is the cutting off point? If the manufacturer makes a sale which under the Sale of Goods Act would pass title to the bona fide purchaser for value without notice—at that point has clause 88 been cut off, or can the bank, if it likes, chase all the purchasers in the event of a bankruptcy?

Mr. RYAN: I think that the question of the bona fide purchaser for value, would depend on whether or not it has been registered. If it has been registered, I do not see how you can acquire a bona fide purchaser for value without notice.

Mr. MACDONALD (*Rosedale*): Then this goes back to your previous answer; you think clause 88 constitutes a notice to the world, like in the case of land registry, and no person can subsequently acquire a better title to that.

Mr. RYAN: I would think so.

Mr. MACDONALD (*Rosedale*): Going on to clause 89—

Mr. CLERMONT: Before you go on to clause 89, I would like to ask a question of Mr. Elderkin on clause 88.

The CHAIRMAN: We are not passing 88.

Mr. CLERMONT: All right.

Mr. MACDONALD (*Rosedale*): If Mr. Clermont would like to ask a question, let him go ahead.

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, with regard to agricultural perishable products, do you have a description of them? What are these products?

(*English*)

Mr. ELDERKIN: I did not get the translation?

(*Translation*)

Mr. CLERMONT: What is the description of agricultural perishable products; is there a list of these products, what are they?

(*English*)

Mr. ELDERKIN: Agricultural products are defined in clause 2.

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, "perishable" is what I am interested in, what is a perishable product?

The CHAIRMAN: I think we should ask Mr. Ryan, but I think it is a term for the definition of—

Mr. CLERMONT: You say a description?

(*English*)

The CHAIRMAN: Mr. Clermont wants to know if there is such a thing as a list of perishable agricultural products.

(*Translation*)

Mr. CLERMONT: In reference to article 88, 5 (b), you speak of perishable products of agriculture, is it fruits, what is it? Is it milk products, dairy products, is it eggs, is it milk? Someone says tobacco, is it tobacco?

(*English*)

Mr. RYAN: There is no definition of perishable products in the act.

(*Translation*)

Mr. CLERMONT: Who is going to provide the interpretation when there is a conflict between the borrower and the lender, a conflict of opinions between the borrower and the lender about perishable products, who is going to define the perishable products?

(*English*)

Mr. RYAN: In a case of conflict on a term of that kind, I suggest that the court would be quite able to define what is commonly understood as perishable products of the soil.

(*Translation*)

Mr. CLERMONT: If I base myself on the description in the Bank Act, Parliament has left it to the judge to decide, is that it?

(*English*)

Mr. RYAN: Ultimately it would be decided by a court, but I think the common usage of the community would give a meaning, and not being an agricultural man I am unable to talk about it. The commercial field would probably determine for you faster than I could, what is a perishable product. I feel very certain that a perishable product of the soil can be related to definite produce. I think of potatoes, as an example, and other products that go bad, which is a matter of ascertainable fact.

(*Translation*)

The CHAIRMAN: I suppose that if we are going to give a complete definition of perishable products in the bill, this might be prejudicial to a farmer, because if a product appears in a list of perishable products then conversely the farmer whose product was not in the list might suffer prejudice.

Mr. CLERMONT: If I refer to surplus farm products, this includes all farm products but when you say perishable products you limit the products, do you not, or do you? Mr. Ryan mentioned potatoes, I think the bankers do not consider that the potato is a perishable product.

The CHAIRMAN: Then why is it more risky to ask for an interpretation from someone who has no farming training, no agricultural background?

Mr. LAFLAMME: There is no law that gives a definition. You can define a name or a term, you cannot define an adjective, perishable is an adjective and cannot be defined, it applies to a given product.

Mr. CLERMONT: Would you say all farm products are perishable?

Mr. LAFLAMME: They may be, the potatoes can be kept for quite a long time in storage.

Mr. CLERMONT: If the court is to make the decision in each case, it is going to be very inconvenient for the farm population.

The CHAIRMAN: There would not be too many difficulties, it is difficult to envisage a question arising. For instance, we have tomatoes, we have radishes.

Mr. LAFLAMME: In my riding there are potatoes that are kept for a year or two years, but if you put 100 bags of potatoes in a truck and these are left by the roadside, obviously they become a perishable product.

(*English*)

The CHAIRMAN: Mr. Macdonald?

Mr. MACDONALD (*Rosedale*): Obviously, this was too perishable for me to interrupt, but if it is finished, maybe I can go on to clause 89.

(*Translation*)

An hon. MEMBER: I agree with you.

Mr. CLERMONT: I have to accept it but I am not at all satisfied.

(*English*)

Mr. MACKASEY: Mr. Chairman, I think the words "perishable goods" do have some connotation in the Department of Agriculture. This matter comes up very

frequently. Anything is perishable under certain conditions, as Mr. Laflamme mentions; but "perishable goods" do have some connotation.

The CHAIRMAN: As I said before, we may be harming certain farmers if we attempt to have a list, because what we leave out probably will be deemed by a court as not being perishable. It already has been pointed out that the very product which we exclude, may be considered under a certain set of facts or circumstances to be perishable.

Mr. MACKASEY: How was this treated in the old bill, Mr. Chairman?

The CHAIRMAN: It was not in the old bill; this results from the proposals of Mr. Gene Whelan.

Mr. MACKASEY: You are not a Whelan if you do not get perishable.

The CHAIRMAN: In so far as I can recall, in the original proposals of Mr. Whelan, he did not attempt to suggest a complete definition of perishable products.

Mr. CLERMONT: Maybe Mr. Whelan had in mind, fruits, because in his region there is a lot of fruit.

Mr. CHRÉTIEN: Yes, but there are perishables everywhere; perhaps it is fruit in Essex, and burley tobacco in the riding of Mr. Comtois.

The CHAIRMAN: All I am saying is that the person in the house who has perhaps taken the greatest interest in this problem, did not attempt to suggest either to the predecessor of this Committee, the Banking and Commerce Committee, or to this Committee, that we should attempt a definition of perishable products of agriculture, and there may be some significance in that.

Mr. MACKASEY: Do we need the word "perishable" in there at all?

The CHAIRMAN: Oh, yes.

(*Translation*)

Mr. CLERMONT: Would it not be acceptable, Mr. Elderkin, to say farm products covers all farm products.

(*English*)

Mr. ELDERKIN: You are going far beyond this then, Mr. Clermont. Farm products may be anything including cattle, poultry and so on.

An hon. MEMBER: No, no; that is livestock.

Mr. ELDERKIN: I know, but it is still a farm product.

An hon. MEMBER: I do not know, but I thought they were by-products.

Mr. ELDERKIN: Well then, you go to products of agriculture, which is defined actually. However, this takes in far more than perishable products, and this was not the intention or the suggestion of Mr. Whelan at any time.

The CHAIRMAN: Perhaps we can all think about this while we revert to Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Perhaps the only comment I might make, Mr. Chairman, is that we should be careful not to say anything which might encourage Mr. Whelan to join us again.

The CHAIRMAN: I am sure others would feel, as I am sure you do, that his attendances here have resulted in a positive contribution to our deliberations.

Mr. MACDONALD (*Rosedale*): Yes, indeed; there is no question about that. I will go on to clause 89, if I might, Mr. Ryan. I am picking it up from the middle of subclause (1):

> —priority over all rights subsequently acquired in, on or in respect of such property—

Could I ask you first, is there, in your mind, any doubt about the right of the federal government to make that declaration so as to give it priority over any declaration of provincial legislatures to the contrary.

Mr. RYAN: There is no doubt in my mind on this score, Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Then going on:

> —and also over the claim of any unpaid vendor, but such priority does not extend over the claim of any unpaid vendor who had a lien upon the property at the time of the acquisition by the bank. . .unless the same was acquired without knowledge on the part of the bank—

On this question of knowledge on the part of the bank, if in fact a provincial law declared that the filing of an appropriate instrument in respect of an unpaid vendor's lien was to constitute constructive notice to the world, then would not the bank have had it under this provision?

Mr. RYAN: I have to hesitate on that one. The expression is "unless the same was acquired without knowledge on the part of the bank".

Mr. MACDONALD (*Rosedale*): Yes.

Mr. RYAN: I think that may actually be knowledge.

Mr. MACDONALD (*Rosedale*): Yes, actual knowledge. You do not think the provincial law could come in here to decree constructive knowledge?

Mr. RYAN: Certainly not in a particular case. As to whether a law of general application would import constructive knowledge into the term "knowledge" I am not prepared to say.

Mr. MACDONALD (*Rosedale*): We might leave that to the courts. We are leaving with you the question as to whether, because of the bank's status as an owner, a careful purchaser shou'd require a waiver of claims under the Bank Act. Thank you very much.

The CHAIRMAN: Is there any further general discussion at this time on clause 88, which we understand is to be stood for final consideration, if possible, tomorrow. If not, I would point out to the Committee that there are no further clauses that we can deal with this afternoon because with respect to the Bank Act we agreed to stand the other until tomorrow. With respect to the Quebec Savings Bank Act, however, there are two clauses we can deal with because they are exactly the same as two clauses which we have now adopted with respect to the Bank Act. Clause 30, in the Quebec Savings Banks bill, is the same as clause 36 in the Bank Act. Clause 84, in the Quebec Savings Banks bill, is the same as clause 96, which we have just passed. Are you in agreement with what I have just said, Mr. Elderkin?

Mr. ELDERKIN: In respect of the first one, Mr. Chairman, we would have to revert to clause 30.

The CHAIRMAN: Yes.

Mr. ELDERKIN: The amendment affects clauses 28, 29, and 30.

The CHAIRMAN: Actually clause 30 has not been passed; it has been stood.

Mr. ELDERKIN: No, but clauses 28 and 29 have.

The CHAIRMAN: All right. I take it we agree unanimously to rescind the decision previously taken with respect to clauses 28 and 29. The clerk is passing out the text of the amendments having to do with clauses 28, 29, and 30. While these are being distributed, I would point out to the Committee that it would appear from our previous discussion that it is the desire of the Committee to meet to draft certain recommendations in addition to the text of the bill itself for our final report. You may recall our discussion about changing the rules of the House to facilitate decisions on bills to grant bank charters, and some other matters. Of course this type of deliberation can best be done in camera because it will, in effect, involve the drafting of a text, I would ask for your suggestions as to when this might be done. As I have said, with the exception of these few clauses in the Quebec Savings Banks bill, which I have just referred to you, we are not in a position to deal finely with any other clauses of the legislation that remain. This has been stood until tomorrow. Do we want to take some time this afternoon for the purpose of drafting these technical amendments, or do you want to put this off until Thursday?

An hon. MEMBER: I think Thursday if the other members agree.

The CHAIRMAN: Is that agreed?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, everybody has copies of the amendments which have just been distributed. Mr. Elderkin, would you like to make any explanatory comments?

On clause 28—*Disposal of shares.*

On clause 29—*Stock books.*

On clause 30—*Allotment of shares not income.*

Mr. CLERMONT: I move that Bill C-223, An Act respecting Savings Banks in the Province of Quebec, be amended

(a) by renumbering subclauses (1) and (2) of clause 28 on page 10 thereof as clauses 28 and 29, respectively;

(b) by striking out line 14 on page 10 thereof and by substituting therefor the following:

"disposal of shares under section 28 exceeds the price per";

(c) by renumbering clause 29, as amended, on page 10 thereof as clause 30;

(d) by striking out the reference to section 26 or 28 in line 35 on page 10 thereof and by substituting therefor "sections 26, 28 or 29"; and

(e) by striking out clause 30 on page 10 thereof.

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendments to clause 28, 29, and 30 are, as I mentioned in connection with clauses 34, 35, and 36 of the Bank Act, solely for the purpose of eliminating clause 30 which is the one referring to the rights issued at the time of issue of shares which, according to clause 30 of this act, is said not to be included in the income of the shareholder. This was, I think, fully explained this morning, and is identical with that same amendment in the Bank Act.

The CHAIRMAN: Shall the amendments carry?

Amendments to clauses 28 to 30 inclusive agreed to.

On clause 84—*Bank not bound to see to trust in deposits.*

The CHAIRMAN: I gather this clause is the same as clause 96.

Mr. ELDERKIN: It is exactly the same as clause 96, Mr. Chairman.

The CHAIRMAN: Yes, which we have just discussed. Clause 84 was stood because it was the parallel clause to clause 96, which at that time we had not discussed and carried. Under the circumstances then, shall clause 84 carry?

Clause 84 agreed to.

The CHAIRMAN: There is another amendment that we cannot deal with today, the amendment to clause 120, which is the parallel clause to clause 151 in the Bank Act. I draw it to the attention of the Committee because the text is appended to this sheet dealing with clauses 28 to 30.

An hon. MEMBER: Did we pass clause 151?

The CHAIRMAN: No we did not. This was stood because this penalty section has some link with clause 91.

Mr. LAFLAMME: What is the amount of the maximum penalty. It is $1,000 here and in the Bank Act it is $10,000.

The CHAIRMAN: No; it is $1,000 in clause 151.

Mr. LAFLAMME: I thought it referred to clause 138.

Mr. ELDERKIN: No; in the amendment to clause 151 it is $1,000 and $500, and I think it is the same in the amendment for clause 120.

The CHAIRMAN: At any rate, we cannot dispose of this amendment today. Is there anything further that we can deal with this afternoon? If not, I declare this meeting adjourned. The next meeting will be tomorrow afternoon at 3.45. This evening's meeting is cancelled.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,

The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 51

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WEDNESDAY, FEBRUARY 22, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

The Honourable Mitchell Sharp, Minister of Finance; Messrs. C. F. Elderkin, Special Adviser, Department of Finance; and J. W. Ryan, Director, Legislation Section, Department of Justice.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25762—1

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS
Chairman: Mr. Herb Gray
Vice-Chairman: Mr. Ovide Laflamme
and Messrs.

Addison,
Cameron (*Nanaimo-Cowichan-The Islands*),
Chrétien,
Clermont,
Coates,
Comtois,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Latulippe,
Leboe,
Lind,
Macdonald (*Rosedale*),
Mackasey,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Tremblay,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, February 22, 1967.
(104)

The Standing Committee on Finance, Trade and Economic Affairs met at 3.55 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Fulton, Gilbert, Gray, Laflamme, Lambert, Latulippe, Leboe, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*), Wahn—(17).

In attendance: The Honourable Mitchell Sharp, Minister of Finance; Messrs. C. F. Elderkin, Special Adviser, Department of Finance; J. W. Ryan, Director, Legislation Section, Department of Justice; and P. M. Ollivier, Q.C., Parliamentary Counsel.

The Committee resumed consideration of Bill C-222, An Act respecting Banks and Banking.

On clause 75

The Minister read two telegrams addressed to him by Stewart B. Clifford, General Manager, The Mercantile Bank of Canada. (*See Evidence*) He was questioned, and Mr. Elderkin assisted him in answering questions.

It was moved by Mr. Mackasey and seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*) that clause 75(2)(g) be amended by striking out the figures "1967" on line 16 of page 52, and substituting therefor the figures "1972".

After further discussion and questioning, the proposed amendment was *carried.*

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),
Resolved,—That clause 75 be amended by

(a) striking out line 8 on page 51 and substituting therefor the following: "negotiable instruments, coin, gold and silver"

(b) striking out lines 25 and 26 on page 52 and substituting therefor the following: "Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof, the amount"; and

(c) striking out lines 49 to 52 inclusive on page 52 and substituting therefor the following: "real or immovable property in Canada comprising existing buildings that are used, or buildings in the process of construction that are to be used, to the extent of at least one-half of the floor space thereof, as private dwellings either by the owners or by lessees under leases for terms of at least one month, other than loans or advances made or guaranteed under any Act of the Parliament of Canada other than this Act, shall not exceed the lesser of"

25762—1½

The clause, as amended, was *carried.*

On clause 76

The Minister was questioned and the clause was allowed to stand.

On clause 91

The Minister was questioned and the clause was allowed to stand.

At 6.00 p.m. the Committee adjourned until 11.00 a.m., Thursday, February 23, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

WEDNESDAY, February 22, 1967.

The CHAIRMAN: Gentlemen, we are in a position to begin our meeting.

As you know, we had almost completed our consideration of the new Bank Act and the new Quebec Savings Bank Act. Some of the clauses had been stood at the request of certain members who were not able to be here yesterday and who wished to make comments on them. Other clauses were stood because we felt it would be helpful to have further comments from the Minister of Finance, who we have with us now.

Perhaps, Mr. Sharp, I showed call upon you at the outset. You may perhaps indicate to us which clauses you wish to comment on, and perhaps we can deal with them first, or do you have some other approach which you wish to suggest to us?

Hon. MITCHELL SHARP (*Minister of Finance and Receiver General*): I assumed that I had been called back to answer questions, Mr. Chairman, and I would be very happy to do so.

The CHAIRMAN: Yes; well we can do it that way. Actually, the first two clauses which we reserved for comments by yourself are clauses 75 and 76.

On clause 75—*Business and powers of bank.*

Mr. SHARP: Well, Mr. Chairman, I have received from the Mercantile Bank some messages that I would like to repeat to the Committee. I have copies that can be distributed so that they can be followed while I am reading them.

The CHAIRMAN: I will ask the clerk to assist us in this. We can also give some to the press. If you do not mind reading while they are being distributed—

Mr. SHARP: There are two messages. The first one is from Vancouver, dated February 14.

> The Hon. Mitchell Sharp, Minister of Finance, House of Commons, Ottawa, Ont.
>
> As there appear to have been some conflicting reports about the position of our bank regarding the current revision of the Bank Act, we would like to make the record clear. Being a legally constituted Canadian chartered bank since 1953, we of course have been and are now subject to and governed by Canadian law. Any increase in our authorized capital is subject to the control of appropriate Canadian authorities. At the present time it would be inappropriate to offer shares in the bank to the investing public a ssome years are needed to build profitability. We would appreci-

ate a period of time to accomplish this work. If the proposed special ratio of liabilities to authorized capital becomes the law, this time is needed. We will give consideration to making shares available to Canadian residents when it is appropriate to do so.

Signed

The Mercantile Bank of Canada

Stewart B. Clifford, General manager

I have received today another message addressed to me which reads—I will not read the address:

We are pleased to confirm our intent to seek share participation by Canadian residents when it is appropriate to make an attractive offering

Signed again by the Mercantile Bank of Cda through Mr. Stewart B Clifford,
general manager

That message was from Montreal.

Mr. MACKASEY: Could you repeat that last message that Mr. Sharp read?

Mr. SHARP: The last message reads:

We are pleased to confirm our intent to seek share participation by Canadian residents when it is appropriate to make an attractive offering.

Mr. CHAIRMAN: Now, gentlemen, I will give you a moment to read the text.

Do you have any introductory comments to make in the light of these telegrams, Mr. Sharp, or would you prefer to invite questions from the members of the Committee?

Mr. SHARP: Perhaps I might explain the situation as I see it.

Under the amendments that are now before the Committee a bank that is owned to the extent of more than 25 per cent by a single shareholder is limited to liabilities equal to 20 times share capital.

An hon. MEMBER: Paid up 20 times their total liabilities?

Mr. SHARP: I said their liabilities are limited to 20 times their authorized capital. They are required, under the law, to bring their liabilities to that level by December 31, 1967.

We also have before us an amendment that was proposed by me when I appeared before the Committee on the last occasion, that any bank subject to clause 75(2)(g) should not be able to sell shares except to residents of Canada. Under the law as it has been for a long time increases in capital are subject to the approval of the government, either the Treasury Board up until now, or of the governor in council after these amendments become law.

Therefore, the position of the Mercantile Bank, as I interpret it, is that unless some change is made in the date by which they have to bring their liabilities into line with their capital they will be required to reduce the scale of their operations to below its present level, because, as I understand it, their liabilities now exceed 20 times their authorized capital.

They can, however, get some relief—if I may put it that way—if the amendments before us become law by selling shares to Canadians, provided that the governor in council authorizes an increase in their capitalization.

As I understand these telegrams, what the Mercantile Bank is asking is for some time before they are required to bring their liabilities back to 20 times their authorized capital so that they can be in a position to make an attractive offer of shares to Canadians. If they fail to do so, whatever the time limit may be—whether it is an provided in the amendments now before us, or at whatever other time Parliament may decide—they have no alternative except to bring their liabilities back. The only way they can get any relief is to sell shares to Canadians.

Moreover, they are not free from the 20 times rules until they have disposed of 75 per cent of their shares to Canadians.

Now, Mr. Chairman, that is as I understand the position, and I think it is in that light that we should consider whether or not the Committee is disposed to be sympathetic to the request of the Mercantile Bank.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask one question at this point, Mr. Chairman?

Mr. Sharp, how do you interpret the second part of the telegram where it says that some years are needed to build profitability. I rather took that to mean they were suggesting that they had to have relief not really from the necessity of reducing their liabilities but from expanding their liabilities in order to build up profitability.

Mr. SHARP: As I understand this request, they need relief from the provision that they have to bring their liabilities back to 20 times their authorized capital by December 1967.

What other relief are they asking for?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not know. But can they hope to achieve this position of profitability without expanding beyond the present level, which is already above the limit?

Mr. SHARP: Well, I do not know that. That is not clear. It is not clear whether they would like to stay at the preent level or move above it.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Or move above it, yes.

Mr. SHARP: However that may be, they have to come to 20 times their capital at whatever time Parliament says they must do so, or be subject to the penalties that are contained in the law.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was trying to determine what it is they are really asking for? I am not clear on that.

The CHAIRMAN: I recognized you, but I should start making a list. I will recognize a supplementary question from Mr. Wahn, and then I will go on to Mr. Mackasey.

Mr. WAHN: My question has reference to Mr. Cameron's point that the first telegram seems to indicate that they need this time only—and I am quoting from the telegram now—"if the proposed special ratio of liabilities to authorized

capital becomes the law". If we can take that literally interpret that to mean that they need the time they are requesting if their growth is limited as set out in clause 75(2)(g).

That is the only purpose of my intervention, Mr. Chairman. However, could you put me on your list to ask questions later?

The CHAIRMAN: Yes. Mr. Mackasey, will you yield to a supplementary by Mr. Laflamme?

Mr. LAFLAMME: I would like to know what the result would be if they were granted an increase in their authorized capital?

Mr. SHARP: Well, if the amendments now before the Committee were accepted they could only be granted an increase in their capital if they sold the additional shares to Canadians.

For example, their authorized capital is now $10 million. Taking a hypothetical case, if they were to offer five million shares to Canadians and obtained the authorization of the governor in council for an increase in their authorized capital to $15 million, then they would be able to expand their liabilities to 20 times that figure. That is, to $300 million rather than the $200 million to which they are now limited under the amendments as we have them before us.

Mr. MACKASEY: Mr. Chairman, I do not have the transcript of the proceedings when I last had an opportunity to talk to Mr. Sharp specifically about the Mercantile—and I do not say this critically, because they are printed up to as late as January 30—but at that time, Mr. Sharp, I asked you to express an opinion—correct me if I am wrong—about the Mercantile Bank, and on whether, in your opinion, or in Mr. Elderkin's opinion, at the present moment the shares in Mercantile were, in reality, worth very much in view of the potential restriction that would be placed upon them by December 31, 1967? In other words, I think the question I asked you was whether anybody could recommend the purchase of these shares if they were made available to Canadians.

As a result of our discussion I think it was fairly well agreed that at the present moment the Mercantile shares would have to be considered highly speculative. I think, also, that the Mercantile people when they were here expressed the same opinion.

I would take a very dim view of any amendments which you may propose, or any suggestions you may have, which would in any way destroy the principle of the bill. The principle of the bill is that Canadian chartered banks shall eventually be in the control of Canadians. I must congratulate you on your firmness on this point.

I am rather surprised and pleased at the telegram in view of the fact that when Mr. MacFadden and Mr. Rockefeller were here they indicated that they could not visualize a situation where Canadians could own shares in the bank.

I do not have the knowledge that other members have of banking, but as I understand it there are two ways in which a bank can expand. One is by increasing its authorized shares. However, you have suggested an amendement that would make it impossible to increase authorized shares by other than selling them to Canadians. Am I correct in this so far?

Mr. SHARP: I have proposed an amendment which would make it impossible for any increase in capital to be granted except for purposes of selling to Canadian residents.

Mr. MACKASEY: Therefore, your amendement is wholly in the spirit of the bill, that the bank eventually become Canadian.

Mr. SHARP: That would be the purpose of it.

Mr. MACKASEY: Now, the other point that impresses me—and I am pro-Canadian and not anti-American—is that if we were to propose, or if you were to suggest, or accept consideration of, an amendment that would postpone the implementation date from, I think, December 31, 1967, to, say, December 31, 1972, and if in that period of time the Mercantile Bank, as a Canadian chartered bank, were permitted to function as any other chartered bank—that is, increase its liabilities to 30, 40 or 50 times, as any of the other banks—it would seem to me, sir,—and I want your comment on this—that on that effective date in 1972 the shares would then become an investment rather than a speculation and that it would be in the best interests of everybody then to put pressure on the Mercantile Bank to dispose of its shares to Canadians, or be faced with the almost impossible task of reducing its liabilities to a ratio of 20 to 1.

Mr. SHARP: In general, I think that is right. To the extent that the bank does increase its liabilities, if it were granted time before the axe fell, they would be under greater and greater pressure to sell shares to Canadians.

I should say, as I said when I was before the committee previously, that the value of the Mercantile shares are greatly influenced by the prospect of getting out from under clause 75(2)(g), because even if they were granted an increase in capital in order to sell shares to Canadians, this bank would still be subject to a very limited ratio of liabilities to capital until they had sold 75 per cent to Canadians. It is at that point that the bank becomes a much more profitable venture and becomes competitive with other chartered banks who are not subject to the same restriction.

Mr. MACKASEY: In other words, Canadians investing in these shares that are made available would be, in reality, making a rather conservative investment, or a bad investment, really, until such time as 75 per cent of the shares are divested. If this were to take any period of time—two, three or four years—then the Canadian people who had initially invested would get very little, if any, return for their money.

Mr. SHARP: That may be so. I really cannot confirm that statement, or otherwise. Certainly the bank will be in a better position to return profits when it is free of this restriction of 20 times share capital.

Mr. MACKASEY: May I put it another way before I give someone else an opportunity to question you?

Do you see anything in the suggestion that the effective date, as you call it, of the axe falling be postponed a few years—not removed but postponed—say, for five years? Would that in any way, shape or form alter the spirit of the bill, namely, that our financial institutions must remain in the hands of Canadians?

Mr. SHARP: No; I do not think it alters in any way the spirit of the legislation. It does give the Mercantile Bank some more time to put itself in the position to sell shares to Canadians. As you are, I am impressed by the fact that after the very firm statement we had from Mr. Rockefeller and Mr. MacFadden the bank is now prepared to say they confirm their intent to seek share participation by Canadian residents.

Mr. MACKASEY: In other words, the telegram is an indication by the Mercantile, or by the First Citibank or by particular people in that bank, that they recognize the right of Canadians to administer the law governing our financial institutions and they recognize in this telegram that unless they want to conform with them there is no room for them in Canadian banking?

Would you have any objection to such a proposed amendment?

Mr. SHARP: This is a very difficult question, Mr. Chairman. That the Mercantile Bank is now prepared to declare its intent to offer shares is such a step forward in this controversy that I believe that this Committee should not in any way discourage the bank from doing that. I do not believe that an extension of the date is contrary to the spirit of the act, and it is possible that it would advance the cause of converting the Mercantile Bank into a predominantly Canadian-owned institution, which I believe is the best outcome.

There are, of course, some who might say that the Mercantile Bank should be required, within this year, regardless of the saleability of its shares, to offer 75 per cent of its existing shares to Canadians. That is a possible attitude that one could take. Personally, I am inclined to believe that there is likely to be a more constructive outcome if some time is given to the bank to get its affairs in order—and we all know from the testimony given here that the affairs of this bank were not in good order when it was purchased by the Citibank—before they are required to sell shares in order to get some relief from this restriction. But this is a question of judgment.

Mr. MACKASEY: Whose judgment, Mr. Sharp?

Mr. SHARP: The judgment of the Committee, the judgment of the House.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Sharp, as is Mr. Mackasey I am under the disability of not having the transcript of the proceedings on your last appearance on the Mercantile Bank, but I recall—you can correct me if my memory is wrong—that with regard to authorizing an increase in the share capital you said something to the effect that you would recommend this only if they were able to come up with a firm underwriting agreement. This would still hold good, would it?

Mr. SHARP: Certainly, yes; the purpose of the amendment I put forward, to require the sale to residents, was to ensure that these shares were not sold to other non-residents and to put pressure on the bank to Canadianize itself.

As long as I am the Minister of Finance—and I am sure I speak for the government in this—we would not authorize an increase in share capital except upon proof that, in fact, the shares were marketable and, indeed, that there was a firm underwriting.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I was reminded of this when I saw a report in the newspapers, which I am sure you saw, too, where the president of the bond dealers association of Canada expressed the view that it was unlikely that the members of his association would be prepared to underwrite such an issue at this time. Now, whether or not he had reference to the existing situation, I am not sure.

Mr. SHARP: I did not see the remarks, but I could imagine that they might have some misgivings about selling immediately, at an adequate price, the shares of Mercantile without having some knowledge of its plans. That is why I believe that this telegram is at least some advance in the position that was put before us when the Mercantile itself was before us.

Mr. MACKASEY: I have one or two more questions, Mr. Sharp, along the lines of those of Mr. Cameron. I agree with Mr. Cameron. I read that article.

I got the impression that the reason for their not underwriting the shares was because at the present moment the bank is under restrictive clause 75(2)(g) with a rather early date for its application, and that this would, in essence, as we mentioned earlier, make these shares very speculative.

However, I would want to clarify one thing, if I may. Presuming that the date is set at another date that the wisdom of the Committee would decide, do you feel that in that interval, between today and, say, 1972, the Mercantile Bank as a Canadian chartered bank should be free to operate as does any other bank, that is, to increase its liabilities under the proper supervision, as other banks do? In other words, would they be permitted, in the interval between now and, say, 1972, to increase their liabilities by perhaps 30, 40 or 50 to 1?

Mr. SHARP: I know of nothing in the law that would prevent that.

Mr. MACKASEY: Mr. Elderkin, do you think that if they were to increase their liabilities 30, 40 or 50 to 1 before 1972, it would make investment by Canadians in the bank in 1972 that much more attractive?

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): I think I would put it the other way, Mr. Mackasey, that if, by increasing their liabilities, they could put themselves into a profitable position so that they could show a profit record to the public, then certainly the shares would be more attractive as an investment.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): May I ask this question, also, Mr. Sharp? Suppose you decided to authorize the increase in share capital, which would enable the bank to increase its liabilities to a very great extent, and if, as we approached 1972—I am taking the date Mr. Mackasey suggests—the bank had shown no immediate intention of putting shares on the market, would we not then face a rather difficult situation if you had a very much expanded bank which, under the law as it would be amended, would necessitate their immediately curtailing their operations? Would you not be under a great deal of pressure then to extend it still further on the plea that it was not yet an appropriate time to place the shares on the market?

Mr. SHARP: There are two answers to that, Mr. Chairman. First of all, the government would have no authorization to extend the time. Parliament would have decided. It would be necessary to amend the act.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, yes; but you might have to tie them down before that.

Mr. SHARP: This might not be very easy, I should think.

The second answer is that there are fairly substantial penalties. This is not just a prohibition. This is a prohibition supported by money penalties. Perhaps those might be looked at to see whether the Committee feels that they are large enough, but I do not think they would be considered insignificant even as they now stand.

Mr. LAMBERT: There is the point too which I think would be even more salutary, that is in the event that they did not so feel, the investing public would certainly sense that there was going to be action taken—and very drastic action—with negative results on their profit position, and down would go their shares. I think enlightened self-interest would be the chief spur at that time.

The CHAIRMAN: Perhaps we could revert to Mr. Mackasey and allow him to conclude his questioning, and then we can move along.

Mr. MACKASEY: Mr. Chairman, Mr. Cameron brought up a very good point. Naturally the pressure would be greater at the time. He mentioned increased authorized shares, but theoretically they would not have to increase their shares to test their liabilities between now and 1972.

Possibly, in granting this amendment, or in including this amendment, the Committee could also consider increasing the penalty and making it a much more realistic penalty in view of the possibility of an extended period of grace in which they could come under the—

Mr. ELDERKIN: There is a penalty in a subclause which is up for amendment, Mr. Mackasey, of $1,000 a day.

Mr. MACKASEY: To a $1,000 a day?

Mr. ELDERKIN: To $1,000 a day; for every day in which a violation takes place.

Mr. MACKASEY: From what figure previously?

Mr. ELDERKIN: $500.

Mr. MACKASEY: This should certainly be a fairly substantial penalty.

Mr. SHARP: A very substantial penalty.

Mr. MACKASEY: Thank you, Mr. Chairman.

The CHAIRMAN: I will now recognize Mr. Wahn, followed by Mr. More. Perhaps others who are interested in participating in this round would please so signify.

Mr. WAHN: Mr. Chairman, I think that most members of the Committee will be very pleased that there is some intention on the part of the officials of Mercantile to make shares available at an appropriate time to Canadians so that Mercantile will be put in the same position as the other Canadian chartered banks.

I, for one, would like to see introduced at least some amendment which would give the Mercantile Bank a reasonable time—whatever that may be—to bring this about. I think that the arrangement would quite obviously have to be

worked out on a much more definite basis than has been indicated so far in the telegrams. However, I have no doubt that this could be be done.

I have one question about the amendment to clause 56(2) which I would like to put to the minister.

When the officials of the Mercantile were before us the bill as it then stood provided, in effect, that Mercantile must remain a small bank—at about its present size—unless it was prepared to sell 75 per cent of its shares to Canadians.

The officials of Mercantile took the position that this legislation was retroactive and discriminatory and punitive. I think that after the hearing most members, and the public generally, were satisfied that the legislation as it then stood was not retroactive, discriminatory or punitive, but, on the contrary, was very fair.

Since that time a new amendment has been brought forth, which is set out in clause 56(2) of the new amending pamphlet that we have received. I think all of us would agree with the provision in this amendment that any new shares issued by Mercantile must go to Canadians until it gets its non-resident holding down to 25 per cent, like the other chartered banks. This seems to be eminently reasonable and I think it is entirely fair.

I have some doubts about the fairness of the other provision in the amendment, which says, in effect, that even if Mercantile remains at its present size it is not permitted to transfer its existing shares held by non-residents to anyone except close associates of the present shareholders or to Canadians. Now, it may not be of any importance in this case to Citibank, because Citibank may have no intention of transferring its shares to other non-residents, but it does seem to me that a new principle is being adopted in this amendment. This principle comes very close to amounting to forced repatriation of securities, and since transfer rights on shares are valuable it comes very close, by limiting transfer rights as radically as it does, to amounting to the expropriation of property by legislative action without compensation.

Mr. Chairman, in this particular case, as I say, it may make no difference to Citibank and, it may make no difference to Mercantile, but are we to accept the principle that it is fair to force repatriation of securities of foreign subsidiaries? If this principle can be made applicable to Mercantile I would ask the Minister whether it could not equally be made applicable to General Motors of Canada, to General Electric, or, indeed, to any subsidiary of a foreign company? Is this principle fair, and, perhaps more important, why is it necessary in this particular case?

As I have indicated, we have already established and justified our position that Mercantile is going to remain at its present size unless its owners are prepared to reduce the non-redident ownership to 25 per cent. That seems to have been accepted. Why is it necessary to go further and, in effect, to restrict the transferability of shares?

Mr. SHARP: I made the suggestion, Mr. Chairman, of limiting the sale of shares hereafter to Canadians because I am interested in this becoming a Canadian bank. I know there is a theoretical point involved here, but I believe it to be quite theoretical.

I have examined the possibilities of drawing the law in another way and I have been unsuccessful in framing a law that does not lead to even greater

complications in the law and in the control that we are trying to exercise upon the ownership of a bank that has this large holding by a single individual.

Moreover, this restriction applies only so long as the original holder has more than 25 per cent. As soon as it gets down to 25 per cent it is free to dispose of its shares to non-residents as it wishes if it will.

Mr. WAHN: Ten per cent, I believe, Mr. Chairman.

Mr. SHARP: I beg your pardon?

Mr. WAHN: Ten per cent under the amendment.

Mr. SHARP: Yes; with a 10 per cent limit to any one holder; but it can dispose of its shares thereafter.

I understand Mr. Wahn's point. It is a very difficult one. I have looked at alternative ways of drafting the law. I do not want to take the Committee through all the complications, but I have been unable to satisfy myself that we can accomplish our purposes in any better way by another amendment, or by an alternative amendment.

I believe that it is a highly theoretical question. It would be my hope that within the next few years it will be more theoretical still; and that in fact this bank will have disposed of 75 per cent of its shares to Canadians.

Mr. WAHN: I have no other questions, Mr. Chairman.

The CHAIRMAN: I now recognize Mr. More, followed by Mr. Laflamme, Mr. Gilbert and Mr. Lambert.

Mr. MORE (*Regina City*): Mr. Sharp, Mr. Wahn's point—

The CHAIRMAN: If I might just interrupt for a second, I think, for convenience—and this has been requested—that we might consider the proposed amendments on clause 56(2) at the same time as we are considering clause 75 because—

Mr. ELDERKIN: Unless you want to refer to it at a later time?

The CHAIRMAN: That is right. You may want to discuss it further at the time we are discussing clause 75.

Mr. MORE (*Regina City*): The amendments are going to require the Mercantile, if it wants to grow, to dispose of all their shares over 25 per cent, and—

Mr. SHARP: I am sorry, Mr. Chairman; I should perhaps correct that. It is possible for Mercantile to grow if it sells shares to Canadians and receives the authorization of the Governor in Council to increase its authorized capital. It is possible for it to grow under those circumstances.

Mr. MORE (*Regina City*): You mean on the basis of selling presently held shares to Canadians, do you?

Mr. SHARP: No, not necessarily.

Mr. MORE (*Regina City*): Would they not have to have an authorization to increase their share capital, or otherwise—?

Mr. SHARP: That is what I said. Providing they get the authorization of the governor in council they could grow by selling shares to Canadians. This would enlarge the base of their authorized capital.

Mr. More (*Regina City*): But would they not be getting such authorization only on the basis that there is an undertaking that they will dispose of all shares over 25 per cent to Canadians? You would not give it on any other basis, would you?

Mr. Sharp: I do not think that would be necessarily limiting. I could not commit the government to what it would do, but if the Mercantile Bank were to say to the governor in council that they would like to dispose initially of $5 million worth of capital in addition to the $10 million that are now authorized, giving the firm underwriting for the sale to Canadians, the government might then authorize that, without any commitment about whether they were to sell the remainder, because the Mercantile Bank would still be subject to the twenty times rule and would still be under the greatest possible pressure to sell more shares in order to be free of the restrictions of clause 75(2)(g).

Mr. More (*Regina City*): Is that not part of the point that Mr. Wahn makes? Why have the additional limitation on the sale of present shares when ultimately they have to meet the impositions of the act anyhow? Is this, in principle, not suspect, and perhaps unnecessary on the basis of the other requirements that they are going to have to meet?

Mr. Sharp: Perhaps I might ask Mr. Elderkin to speak to this point. We did consider alternative forms of restraint on the sale of shares. Perhaps he can give you, much more expertly than I can, the reasons for our putting it forward.

Mr. More (*Regina City*): I just fail to see the reason.

Mr. Elderkin: Mr. More, as the Minister said a few minutes ago, this is quite theoretical in the present instance, because in the discussions the representatives of the National City Bank showed no inclination to dispose of any of their present shares whatsoever.

What they asked for, and what this would provide, would be that any new shares that were issued would be sold to Canadians. This does not bar them from selling some of their present shares to Canadians, but in the discussions they asked for no stipulation that any of theirs should be sold to Canadians.

Mr. More (*Regina City*): This, I think, brings in the other point. This telegram does not indicate any firm basis of their intent to have Canadian participation. It does not provide the Committee with any definite information.

Mr. Sharp, you have suggested that the Committee should deal with this question. My feeling is that a much more concrete proposal is necessary from the Mercantile before really the Committee can deal with it intelligently in the light of the purposes of the act now before us, with which perhaps there may be general agreement.

Mr. Cameron raised the question: What do they want? I have the same feeling. In the previous conversations there was general agreement that unless the bank could continue to grow its shares would not be attractive to Canadians, and that in effect we were imposing an impossible operation and responsibility on them. My own personal feeling was that this was really not what we intended to do. What we intend to do is to see that they become Canadian, and we should amend our position on evidence of their intent to accept the impositions of the act and to become a good corporate Canadian citizen.

In our previous conversations we explored some means of permitting growth to the Bank and giving them some time to meet the requirements. As I recall it, I made a proposal about an equity basis of 25 per cent this year, and so on the next. I was quite amazed when I picked up the *Citizen* to see an editorial—and I had not seen the *Citizen* before I made that proposal—advocating much the same thing. I had not seen it. I was just thinking off the top of my head at the time.

If we adopt the act and the amendments in this section, are you still left with discretion by Order in Council to approve of an arrangement with the Mercantile Bank?

Mr. SHARP: If the law were authorized in the form of the amendments that are now being considered by the Committee, without any further amendments, the governor in council could increase the authorized capital of the Mercantile, as it can the authorized capital of any other chartered bank. However, the bank would be under the necessity of reducing its liabilities to 20 times its then authorized capital by December 31, 1967. I hold no brief for the Mercantile Bank. I put these telegrams forward because I had received them and I thought that the Committee would like to know the news as expressed to me.

As I read these telegrams, what the Mercantile Bank is saying is that they will be in a better position to offer shares to Canadians if they do not have to bring their liabilities back to twenty times their capital by December 31, 1967. That is what this telegram says. They would like to have some more time so that they can improve the profitability of the bank before they have to offer shares to Canadians. That is all they say.

Mr. MORE (*Regina City*): Actually, I think we were agreed that they would have to have the ability to grow to more than twenty times their present capital to do that, or some other consideration, so in effect they are indicating what we talked about when you were previously before the committee. Then, in other words, as I understand it, the ministerial discretion does not permit you to change the 1967 date. That would require amendment to the act.

Mr. SHARP: That is right.

Mr. MORE (*Regina City*): This is the point that I wanted to clarify.

I will pass for now.

Mr. LAFLAMME: Mr. Chairman, I listened to what Mr. Mackasey said and I would support an amendment for extension of time to a period of five years, provided that in the meanwhile they divest themselves of part of their shares at the rate of, let us say, 10 per cent a year; and that in the meanwhile, if they receive an increase in their authorized capital, they sell those shares to Canadians. I think it would be much more profitable for everyone, and that we would not need a written agreement by the Mercantile Bank that they will sell their shares to Canadians. I would be in favour of their disposing in the meanwhile, of 10 per cent of their shares, every year. I think that would be something that would be workable.

Mr. SHARP: May I just make one comment about that? What you are really telling me is that Mercantile Bank must find a buyer for those shares; that they have no alternative; they can not wait; they must just find a buyer even if they

have to give the shares away. That may, or may not, appeal to the Committee. I do not mind. However, I think you ought to recognize the implications of what is being said.

On that point, Mr. Chairman, I might say that the real pressure in this act comes from the twenty times rule. The other chartered banks have liabilities in relation to their capital of 30, 40, 50 times—perhaps more. The bank cannot be a very profitable operation until it is free of that restriction, and it cannot be free of that restriction until it has disposed of 75 per cent of its ownership; that is, it has allowed shares to be sold that reduces its ownership, or disposes of existing shares, to that point. Until it reaches that point the bank is not in a position to offer as good an investment as the other chartered banks, presumably. That is the pressure in this law.

Mr. FULTON: Have you indicated a firm position about what you will do if the bank applies for an increase in its authorized capital?

Mr. SHARP: No; I have said in reply to Mr. Cameron that under the amendment that I proposed when I was before the Committee previously they can offer their shares only to Canadians hereafter; and secondly, if they came forward with a request for an increase in their authorized capital it would have to be accompanied by a firm underwriting of the sale of the shares to residents.

Mr. LAFLAMME: I think that is pretty clear; but is a statement of your intention really necessary to—

Mr. SHARP: I find it difficult to judge. I have talked with some of my officials about it and they have said that the five-year period does not seem to them to be excessive. It really depends upon one's judgment here. It is certainly desirable from all points of view that the Mercantile Bank begin to dispose of its shares to Canadians as quickly as possible. We should be fair to the institution, to give them an opportunity to sell. It is a question of judgment behavior these two.

Mr. COMTOIS: If you ask them to dispose of 10 per cent of their shares by, let us say, December 31, 1968, I do not think that is very intense pressure.

Mr. MORE (*Regina City*): If they are unsaleable what difference does it make whether it is 10 per cent or 75 per cent?

Mr. LAMBERT: You are salaaming them to death.

Mr. MORE (*Regina City*): May I just ask one supplementary question of the Minister?

The CHAIRMAN: Yes; and then we will revert to Mr. Laflamme; he has the floor.

Mr. MORE (*Regina City*): Mr. Sharp, what do you mean by a "firm underwriting"? I just want an explanation of the term. Do you mean that they should have to have a firm agreement with a group of entrepreneurs?

Mr. SHARP: That is right; that they will take the shares if they cannot be disposed of on the market.

Mr. MORE (*Regina City*): This might be difficult to get. There are indications that this is not procurable at the present time.

The CHAIRMAN: Do you mean a group of entrepreneurs, or a group of securities dealers?

Mr. MORE (*Regina City*): Those are entrepreneurs, are they not?

The CHAIRMAN: Oh, yes; but I want to make it clear that ordinarily that term refers to a group of people who are in the business of buying and selling shares for disposal to the public.

Mr. SHARP: Let me put the position this way: If I were in the position of the Mercantile Bank and I knew what the law said—if it is approved in the form in which it is now before the Committee—I would not come forward with a request for an increase in authorized capital until I was sure that I could dispose of the shares. Just to offer shares in the hope that somebody is going to buy them would not be a very responsible, or very business-like, way of carrying on.

Mr. MORE (*Regina City*): That is the point I was going to raise. The present indications are that the climate is not too favourable for this to be secured by the Mercantile Bank. I was going to ask you if there would be any basis other than a firm underwriting—which you have explained, and which was my understanding, but I wanted to get it clear—such as a deposit trust of shares with the Minister so that there would be no question about their being there and available to the Canadian public at a time to be determined as favourable, and when you could get a firm underwriting? In other words, on the basis of a deposit trust of shares could you grant increased capital for their purposes so that they could get into a position where the Canadian public would be favourable to buying?

The CHAIRMAN: If you do not have any comments on Mr. More's suggestion we will revert to Mr. Laflamme.

Mr. SHARP: I do not think that the Mercantile Bank is going to offer shares tomorrow, or within a year, unless they are in the position of having no alternative but to get rid of then at any price because they are subject to this restriction in the proposed amendment.

I am not quite certain about Mr. More's other suggestion of putting shares in a deposit trust. I do not think that you want to put on the governor in council the responsibility of deciding when Canadians are ready to buy shares.

Mr. MORE (*Regina City*): If you cannot get a firm underwriting, then the requirements—

Mr. SHARP: Then the bank puts itself in the position of having to reduce itself back to the small operation that it is now. That is the penalty.

Mr. MORE (*Regina City*): This is what I am getting at. I think there might be general agreement that we should try to find a position where this can grow and be a factor.

The CHAIRMAN: I think we should allow Mr. Laflamme to finish his questioning.

Mr. LAFLAMME: I just have one other question, Mr. Sharp. When they said that some years were needed to build profitability, did they signify to you, or to your officials, what they would consider to be "some years"?

Mr. SHARP: I have not been in touch with Mr. Clifford, other than through these telegrams. I have talked to one or two directors of the bank, but they did not clarify this point at all. I really cannot answer the question.

I do not know whether Mr. Elderkin has had any discussions with them. He is in the position of having been the Inspector General of Banks. Perhaps they tell him more than they tell me.

An hon. MEMBER: I could lay a bet here!

Mr. ELDERKIN: The answer, Mr. Laflamme, is Yes, they did ask for five years as a period in which they they thought they could bring the bank to a more profitable position.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): In what circumstances, Mr. Elderkin?

Mr. ELDERKIN: That is all. If they were given five years they thought they could bring the bank into a profitable position.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Five years in what situation, though? Five years with the relaxation of the 20 to 1 ratio?

Mr. ELDERKIN: No; no relaxation at all.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Five years in the present circumstances?

Mr. ELDERKIN: Five years in the present circumstances; and if they cannot meet it in the five years they would have to get back to their 20 to 1.

Mr. MACKASEY: Would you define "the present circumstances" for me?

The CHAIRMAN: Order, please. I think we should recognize Mr. Gilbert and allow him to say what he wants and to proceed, uninterrupted, to pose some questions or to permit some supplementaries.

Mr. GILBERT: Some of my questions have been answered. I notice the difference in intent between the telegram on the 14th and the one on the 22nd. The intent, as Mr. Elderkin expressed it, was that they had no intention of selling their shares. Then on the 22nd they say "we confirm our intent". Is this the result of negotiations with your department, or with Mr. Sharp?

Mr. SHARP: I was in touch with directors of the bank, and I asked what the first telegram meant and did they have the intent of selling shares, or did it mean, as the last telegram was rather ambiguous, that they would give consideration to making shares available? I said that it seemed to me to be a very ambiguous sentence.

Mr. GILBERT: That is quite true.

Mr. SHARP: I said, "Can you get Mr. Clifford to clarify what he meant". It was a result of that that I got this telegram saying "we are pleased to confirm our intent". They had thought, apparently, that their previous telegram had expressed an intent.

The CHAIRMAN: The next name on my list is that of Mr. Lambert.

Mr. LAMBERT: I want some clarification of that last answer given by Mr. Elderkin. That is, five years—

Mr. ELDERKIN: A five-year extension from December 31, 1967.

Mr. LAMBERT: Without having to come back to the 20 times?

Mr. ELDERKIN: But having to come back to 20 times at the end of the five years if they do not distribute shares to Canadians.

Mr. LAMBERT: That is fine.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): And in that five year period could they go beyond their present ratio?

Mr. ELDERKIN: Yes.

The CHAIRMAN: There would be no limit? What you are doing, in effect, if you add five years is extending the effective date of clause 75(2)(g) from December 31, 1967 to December 31, 1972.

Mr. ELDERKIN: That is correct.

Mr. MORE (*Regina City*): During which period they could grow in an unlimited fashion.

Mr. ELDERKIN: With the penalty that if they did not distribute shares before the five years was up, sufficient to cover their increased liability, they would have to come back to the 20 to 1 ratio, with the daily penalty, as presently proposed, of $1,000 a day.

Mr. MORE (*Regina City*): If I may put a supplementary question to the Minister, does he consider this to be a reasonable request to meet the situation, so that the Committee may have some basis for consideration.

Mr. SHARP: Yes; I believe it is not an unreasonable request. It is very difficult to have a judgment.

I am so interested in having the Mercantile Bank become a Canadian bank that I hesitate to put any unnecessary road blocks in the way. If the extension of a few years would enable them to market their shares successfully to Canadians, then I say, from a Canadian's point of view, that I think this would be a reasonable thing to do.

The CHAIRMAN: Do you have any further questions, Mr. Lambert?

Mr. LAMBERT: Yes, the ball was taken right on as soon as I got one question in. May I continue? I do have some other questions.

First of all, may I say that when the Minister says that his principal idea is to make the Mercantile a Canadian bank that is where I part company with him. This is not because it is Mercantile, but because I do not think the principle that has been advocated in the legislation is right for us in Canada for the future. I also do not agree with what Mr. Wahn said, and I was not impressed by what pot called what kettle black during the hearings on the Mercantile Bank.

Having accepted that situation, though, and knowing the intent of the government, I am glad to see the Minister's attitude, and that of others, which is to let the Mercantile people get themselves back into reasonable shape, or at least of giving them a chance to get into reasonable shape to dispose of their shares. I think it would be an absolute death sentence for this organization if we insisted on the legislation as it now stands, without a further amendment

providing for at least five years and a chance to operate in a very competitive market. I am going to limit what I say to that. As I said, I do not agree with the principle of the legislation.

In fact I think that this has been applied to one bank, but in that way you are knocking out any chance of any other foreign bank, be it British, French, or otherwise, coming into the country until we get, perhaps, something in the way of agencies—something which is very indefinite at the present time.

The CHAIRMAN: Gentlemen, may I make a suggestion before we continue? In view of the discussion up to now perhaps the Committee may feel that we should firm up our consideration by seeing if we are ready to have an amendment put before us. We may not be ready, and it may not be the intention of the Committee, and I am not trying to shut off the discussion, but I thought perhaps it might focus our consideration if someone were to move an amendment, and then our discussion could continue. I am just making the suggestion. I am not trying to impose it on the Committee in any way.

Mr. MORE (*Regina City*): Are you suggesting an amendment to meet the request of Mercantile?

The CHAIRMAN: Yes; that is what I was referring to. I am not suggesting to the Committee any wording one way or another. I am just suggesting that from the point of view of advancing our business it might be appropriate to have an amendment before us.

An hon. MEMBER: Would it change much what is in here?

The CHAIRMAN: It may mean a change and one or two additional words to make it consistent. Then our discussion could continue.

Mr. LAMBERT: You are asking us to do something to exercise our judgment, and then you throw forward an amendment and ask for our opinions on it. I do not think it is right.

The CHAIRMAN: No, I am not trying to throw forward an amendment. I am merely suggesting that some members of the Committee may feel that they would like to propose an amendment at this point. If not, we will just continue with our discussion.

Mr. MACKASEY: In view of the fact that I brought this question up, I must confess that my idea in suggesting the amendment came from listening to Mr. Cameron, whom I respect very greatly, and who was an expert on finance the other evening when Mr. Rockefeller was here. I thought that Mr. Cameron made a very objective suggestion in that Committee meeting, and I have been trying to get his exact words. I know he would be glad to repeat them. I have not been able to find them.

The point I am trying to make is that Mr. Cameron at that time suggested to Mr. Rockefeller that we are not anti-American but that we had the right to draw up our own Canadian rules for the next 10 years. Mr. Cameron, suggested to Mr. Rockefeller that a period of up to 10 years should be given for the Mercantile to conform to the rules and regulations, so long as we did nothing to depart from the principle that this is the pro-Canadian legislation that we want it to be.

I am more than happy to move the amendment to clause 75(2)(g) that the applicable date of 75(2)(g) be extended until—my arithmetic is bad and, I am not sure whether it is the beginning of 1968, Mr. Elderkin, or—

Mr. ELDERKIN: December 31, 1972.

Mr. MACKASEY: To the end of 1972?

Mr. ELDERKIN: December 31, 1972.

Mr. MACKASEY: I would be more than happy to move such an amendment, Mr. Chairman, if you, being the lawyer, would like to draw it out for me.

An hon. MEMBER: He has already drawn it.

The CHAIRMAN: No, I have not, really; we have here some members of the bar who are much senior to me, on whom members of the Committee may want to rely.

Mr. MACKASEY: It is the way of our senior bar members to make things much more complicated than do the juniors, and much more complicated than do the laymen. Perhaps I had better draft it myself.

The CHAIRMAN: Mr. Mackasey, you are, in effect, moving that clause 75(2)(g) be amended by striking out the figures "1967" in line 16 on page 52 and substituting therefor "1972". You are moving this amendment, Mr. Mackasey?

Mr. MACKASEY: I am, Mr. Chairman.

Mr. FULTON: What could be briefer than that?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I will second that. I might as well be hanged for a sheep as a lamb.

Mr. MACKASEY: Well, we are both left-wingers, as you well know.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We will settle this matter yet.

The CHAIRMAN: You are not withdrawing the hem of your garment!

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Later on, when it comes back to the House, I am going to propose an amendment that I think would leave in the Minister's hands a weapon that I think he may yet have some use for. This is somewhat in line with Mr. More's suggestion. I do not know at all that we are going to solve this problem this way, but I think it is a great pity that the Minister should have divested himself of the power, which he does in clause 53(3)(a), of the right of Her Majesty in right of Canada to purchase shares of a bank. I think this is a weapon you should still keep in your hands.

Mr. SHARP: Then I would have to have a view about the value of the shares.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): We would expect you to make a good bargain.

Mr. MACKASEY: I would say to Mr. Cameron that if his suggestion is that if the Mercantile Bank does not conform by 1972 we nationalize them, I would be pleased to second the motion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): There is complete co-operation between us!

The CHAIRMAN: Since we have already adopted clause 53 in its present form, at least so far as the Committee is concerned, we have to hold this out as a possible forthcoming attraction for a debate in the house.

We now have an amendment before us on which I will ask if there is any further discussion.

Mr. FULTON: I would like to ask the Minister so that I can be sure of the context in which we are considering this, to refresh my memory, please, on whether the revisions before us in the total new bank act allow for the establishment of what are commonly called agencies of other banks in Canada.

Mr. SHARP: When I appeared before the Committee, Mr. Chairman, I recommended that we should not make a decision about agencies now, and that I thought we should within a few months. It could be done separately as an amendment to the present act.

The CHAIRMAN: Is there any further discussion?

Mr. LEBOE: Mr. Chairman, this matter of residents clauses has been a bugbear to legislation all through the years. I am thinking back to what Mr. Stevens said in connection with the Bank of Western Canada, that one alternative was to move to Winnipeg to make it a western bank. Now, under the resident clause, it does not mean here that a man must be a Canadian citizen, as I understand it. Is that right?

Mr. SHARP: That is right.

Mr. LEBOE: In other words, a person having a goodly number of shares, even though he is an American, could move to Canada, take up residence in Canada, be ordinarily resident in Canada and then they would become shares of a resident in Canada. Is that right? This is a wonderful country and—

An hon. MEMBER: Is there not a loss suffered if he moves to Canada?

Mr. LEBOE: Perhaps his son, or his daughter, or someone else—

The CHAIRMAN: He might settle in the Caribou country.

Mr. LEBOE: We have a very attractive country and I do not see any reason why a lot of people would not want to come here.

Mr. SHARP: Well, perhaps when Alberta gets rid of their estate tax he will.

Mr. LEBOE: Well, British Columbia is okay. There is lots of room in British Columbia for good residents.

I notice that there is nothing here about the individual having to be a Canadian citizen at all, or having any citizenship rights in that way.

The CHAIRMAN: Do you have any comment with respect to Mr. Leboe's question about residents?

Mr. ELDERKIN: Yes, we looked into this very seriously, as a matter of fact, when the act was being drawn. We do require that three quarters of the directors must be Canadian citizens, but in the case of shareholders we referred to residence only. It would be almost an impossibility to check out every shareholder to find out whether he had Canadian citizenship or not. We must abide by his residence under those circumstances. Administratively, it would be just impossible to operate on a citizenship basis.

Mr. LEBOE: Yes. Well, I considered this.

Mr. ELDERKIN: If we do have a few American citizens living in Canada, at the most they could never have more than 10 per cent holding in a bank that is the greatest figure they could have. Therefore, I do not think this is a serious problem, Mr. Leboe.

Mr. LEBOE: No. I was just wondering about the fact that although, in the normal situation, as far as shares are concerned, it would never happen, confronted with a problem, it seemed to me that there would be a chance for some manipulation in that regard?

Mr. MORE (*Regina City*): No individual can have more than 10 per cent.

Mr. ELDERKIN: No.

Mr. MORE (*Regina City*): In fact, no individual.

Mr. ELDERKIN: Yes.

The CHAIRMAN: Yes. Mr. More is pointing out that no individual, whether he is a citizen or a non-citizen and even if he is resident in Canada, can hold more than 10 per cent of the shares in a bank.

Mr. LEBOE: I realize that, but it only takes ten people to own 100 of them if they all own 10 per cent. It only takes ten people to make 100 per cent. I do not think it is a serious problem, only under the discussion we have had concerning getting to that particular point where we were going to come in within the 25 per cent limit. I do say that a smart operator looking at the proposition could under the resident clause—I am not saying it would happen—could certainly manipulate the proposition if the shares are controlled in any large blocks by individuals in the United States.

The CHAIRMAN: Well, are there not limitations also with respect to associates of preferred shareholders?

Mr. ELDERKIN: If they are associates they are considered as one shareholder.

Mr. LEBOE: That would be pretty hard to define, too.

Mr. ELDERKIN: No, the "associate" is quite clearly defined in the bill. The bank requires a sworn declaration, and he is required to give its sworn declaration that he is not an associate. There is a very heavy penalty on the person who makes a sworn declaration that is not true.

Mr. LEBOE: Well, I would not want to argue the point, but it just seemed to me that an individual in this business could be a long ways away, as far as another individual is concerned; as far as the relationship to the obvious eye of anybody, and yet can be awfully close at times in their operations. I would think it would be easy to do if it was designed to manipulate. It seems to me that the brains going to work could make it pretty miserable for us.

Mr. ELDERKIN: Well, I think he could evade it anyways, Mr. Leboe, by simply setting up a Canadian corporation with dummy shareholders.

Mr. LEBOE: Yes.

Mr. ELDERKIN: If you are looking for a way to evade the act, there are usually ways that you can do it, but I think this is very hypothetical.

Mr. LEBOE: Well, I think it is actually, but in the sum total of the discussion, these resident clauses are tough at any time. I realize that these are tough at any time and I thought I should bring it to the attention of the Committee that this possibility does exist. I really think it does exist, although it is hypothetical.

Mr. LAMBERT: Mr. Chairman, the Minister of Finance allows or permits the Inspector General of Banks to say that to administer it is difficult, but yet on the other hand you insist on the Minister of National Revenue finding out about Canadian citizenship under the recent amendments to the Income Tax Act for certain depreciation provisions.

Mr. SHARP: It is unfortunate the Minister of National Revenue is not here.

The CHAIRMAN: I presume this implies that he and the government officials are able to be vigilent in this sort of thing.

Is the Committee ready for the question on the amendment?
Clause 75(2)(g) as amended agreed to.

Mr. FULTON: Mr. Chairman, on subclause (3)—

The CHAIRMAN: Yes.

Mr. FULTON: —as I recall the previous discussion it was indicated that consideration would be given to an amendment to take care of the situation in British Columbia with regard to second mortgages. Has that been introduced?

Mr. ELDERKIN: I think it was on clause 88, not 75. I have an amendment on clause 88—

Mr. FULTON: Wait a minute. Pardon me; 75(3) contemplates banks advancing money on the security of second mortgages—

Mr. ELDERKIN: We have an amendment which has not yet been passed but it will be. There are several amendments to clause 75 which have not yet been passed.

The CHAIRMAN: Yes.

Do you wish me to call the amendments? This is in the first booklet. I will take it as a matter of course that the amendments are formally moved by Mr. Chrétien and seconded by Mr. Macdonald.

Mr. CHRÉTIEN: I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 8 on page 51 thereof and by substituting therefor the following:

"negotiable instruments, coin, gold and silver"

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 25 and 26 on page 52 thereof and by substituting therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof, the amount".

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out lines 49 to 52, inclusive, on page 52 thereof and substituting therefor the following:

"real or immovable property in Canada comprising existing buildings that are used, or buildings in the process of construction that are to be used, to the extent of at least one-half of the floor space thereof, as private dwellings either by the owners or by lessees under leases for terms of at least one month, other than loans or advances made or guaranteed under any Act of the Parliament of Canada other than this Act, shall not exceed the lesser of"

Mr. MACDONALD (*Rosedale*): I second the motion.

Mr. ELDERKIN: The amendment to clause 75(1)(b) is strictly editorial. It is simply a change in the sequence of the words to clarify the term "negotiable instruments, coin, gold and silver".

Clause 75(1)(b) as amended agreed to.

Mr. ELDERKIN: The amendment to subclause 75(3), which Mr. Fulton just spoke about and in which we introduce an equity of redemption, or an assignment of a mortgage, on the interest of the lessee thereof. This is to take care of the point that you raised, Mr. Fulton. This is in lines 25 and 26 of page 52. It will then read:

Where the bank lends money or makes an advance upon the security of real or immovable property in Canada, or of equity or redemption therein,—

Clause 75(3) as amended agreed to.

Mr. ELDERKIN: Subclause 75(4), Mr. Chairman, is a matter of definition. In 75(4) we refer to:

—property . . . used for residential purposes,—

This is too vague a term, and the amendment proposed here is to clarify the terminology.

Clause 75(4) as amended agreed to.

Mr. ELDERKIN: That is all, Mr. Chairman, on clause 75.

Mr. LAMBERT: With respect to clause 75(4), in other words, the building for residential purposes must have one half of its floor space devoted to residential purposes. Does this include basement?

Mr. ELDERKIN: The total floor space of the building, yes.

Mr. LAMBERT: Including basement?

Mr. ELDERKIN: Including basement, yes. This is a term we have used in the Quebec Savings Bank Act for a great many years and it has worked out very satisfactorily.

The CHAIRMAN: Shall the amendment carry? We have already carried the amendment to 75(2)(g).

Clause 75 as amended agreed to.

On clause 76—*Ownership of Corporate stock*

The CHAIRMAN: I draw the attention of the Committee to the fact that we have had booklet No. 3 of these proposed amendments presented to us by the government for our consideration.

Perhaps, Mr. Elderkin, you could outline the intent of this amendment with respect to clause 76 which I gather deals with ownership by banks of corporate stock, and so on.

Mr. ELDERKIN: In the original clause 76 there was a restriction on ownership of more than 10 per cent in the voting stock of any Canadian company. The proposal which is before you at the present time in this amendment would permit the bank to own not more than 10 per cent of a Canadian trust or loan company, but in other Canadian corporations it might have either the 10 per cent in some cases, or, in other cases, a total investment of not more than $5 million which would represent not more than 50 per cent of the voting stock of the corporation. In other words, the $5 million investment is the case where a $5 million investment could be made by the banks, but by that investment they would not own more than 50 per cent of the voting stock of the corporation.

Mr. LAMBERT: Surely it is the maximum of 50 per cent or $5 million.

Mr. ELDERKIN: Well, the two go together, Mr. Lambert. The $5 million qualifies the 50 per cent. They could own 10 per cent of the stock of another corporation, which would cost them far more than $5 million. That is the second case. There are two cases involved here—One in which they can own 10 per cent of the voting stock of a Canadian corporation and there is no stipulation on the total amount of the cost to them; and—

The CHAIRMAN: Yes.

Mr. ELDERKIN: —in the other one they can own up to 50 per cent of the stock of a Canadian corporation providing that the cost does not exceed $5 million.

Mr. FULTON: It is cost, not value.

Mr. ELDERKIN: It is what it cost to them.

Mr. LAMBERT: Do you feel, Mr. Elderkin or Mr. Sharp, that this provides a sufficient umbrella for, say, protection against a takeover? It has happened in the past that a bank has been asked to protect a Canadian company from takeover.

Mr. ELDERKIN: Could I answer that, Mr. Lambert?

Mr. LAMBERT: That is, from foreign takeover?

Mr. ELDERKIN: There is a provision in the act which permits them to go all the way on this under such circumstances, but they must dispose of those shares over and above the limit within two years.

Mr. LAMBERT: Yes, I know. This may not be sufficient time. The point that concerns me is that there has been experience in the past where they did provide the umbrella to eliminate the takeover attempt, but it took them more than two years to liquidate the holdings in an orderly fashion.

Mr. ELDERKIN: Well, this is a matter of judgment, whether or not the two year period is the correct period. This is now embodied in subclause (4) which says:

> The bank may acquire shares in excess of the maximum number prescribed by this section, but shall sell or dispose of such excess shares within a period of two years from the day on which they were acquired.

Now, it is a matter of opinion whether the two years is sufficient time. In the two cases that we have examined where a bank did step in to prevent a takeover—

Mr. FULTON: Excuse me; in the proposed amendment it is confined to the case where a bank has realized its security, and it appears to put the position as five years.

Mr. ELDERKIN: That is right. That is another case altogether, where it has realized its security.

Mr. FULTON: Yes. What is the section in which the matter of—

Mr. ELDERKIN: In subclause (4) which becomes (5)—on page 54, Mr. Fulton.

Mr. FULTON: I see. That (4) still stands.

Mr. ELDERKIN: Yes; unless it is the wish, or the recommendation, of the Committee that the period be different. There has been no change in that.

Mr. LEBOE: I should think that two years is a pretty confining time. Time can fly pretty fast. To get organized to get into the field to really look at the situation takes time and it seems to me that two years is rather short.

Mr. FULTON: Mr. Chairman, can we not give the Canadian bank five years?

Mr. ELDERKIN: I could follow this up, incidentally, with the following subclause, to the effect that " —Minister may extend the time for the sale or disposal of any shares under the section for a further period or periods not exceeding two years in the aggregate". In effect, if the first two years are not sufficient the Minister could give them another two years, which would be a total of four.

Mr. LEBOE: Well, that may be enough—

Mr. ELDERKIN: In the two cases that came to our attention, actually, the two years would have been enough, but that does not necessarily mean that this will always be the experience. This is, in effect, four years.

Mr. FULTON: I think this may have been answered before, but so that I am sure, is the $5 million maximum in subclause (1) enough to cover the holdings in the existing companies that have been named?

Mr. ELDERKIN: That is right—the holdings of the existing companies that we are talking about, namely, RoyNat, Kinross, et cetera.

The CHAIRMAN: Would this amendment permit the bank to own 50 per cent of a company which itself owns 100 per cent of a trust company?

Mr. ELDERKIN: Fifty per cent of the company that owns 100 per cent of a trust company?

The CHAIRMAN: I should not throw that at you on such short notice, but according to the proposed amendment it would prevent a bank from holding more than a very limited interest in a trust company, and at the same time we are permitting banks to hold certain larger interests in other firms.

Mr. ELDERKIN: Well, you are limited on a non-Canadian company; but if you are talking about a Canadian company that owned shares in a trust or loan corporation, I would think that the amendment would permit them to own 50 per cent if it was not a trust or loan company which was the holding company.

I do not know whether this can be cured by putting in the word "direct"—

An hon. MEMBER: This is the ownership of a company by a bank.

Mr. ELDERKIN: That is right.

The CHAIRMAN: Which, in turn, owns the trust company.

Mr. RYAN: And that puts you in the Trust Companies Act, in some cases, with ownership; and I do not think there is any provision that would prevent that.

The CHAIRMAN: Perhaps I could make a suggestion. It would appear to me, looking at my watch, that we will not complete our consideration tonight, especially since I think it is the intention of the Committee to make certain textual comments in its report as well, which I was going to suggest that we do tomorrow morning. Perhaps we can proceed, and if the matter that I have raised appears to be one of some concern to the government with respect to policy it might be considered tomorrow morning.

Mr. SHARP: I assure you, Mr. Chairman, that it was not our intent to permit the banks to avoid the restrictions of the act by being able to hold the trust companies indirectly.

Mr. ELDERKIN: Yes. I think it may be better to stand this. I think I would like to discuss it with Mr. Ryan.

Clause 76 stands.

Mr. FULTON: Mr. Elderkin, which is the clause dealing with interlocking directorates?

Mr. ELDERKIN: That is back in the directors' section, Mr. Fulton.

Mr. FULTON: Clause 18.

Mr. ELDERKIN: It is clause 18, but I do not know whether it is one that was amended or not. Yes, it is clause 18(6).

Mr. FULTON: Have we dealt with this?

Mr. ELDERKIN: Yes, it has been passed.

The CHAIRMAN: Well, we have stood that. Now, gentlemen, next we have clauses 88, 89 and 90 which I think are—

Mr. ELDERKIN: Clause 77 has been passed?

The CHAIRMAN: Yes. I was going to suggest, since we may want to get into a more detailed discussion on some of the aspects of clause 88, that we might stand it and the related ones for the moment and move on to clause 91.

Clauses 91, 92 and 93 deal with interest and charges. I am merely suggesting this to the Committee. We have the Minister with us and I am not sure what his schedule is tomorrow morning. Perhaps we could hear his comments on this particular group of clauses which are, I think, of considerable interest to the Committee and to the public at large.

Clause 88 stands.

On clause 91—*Powers re interest.*

Mr. SHARP: Well, the first of these, Mr. Chairman, is the question of the ceiling on the interest charges by the banks, and the question of when the ceiling is removed.

In the bill as placed before the House the government proposed that the ceiling should first be relaxed and then removed when interest rates fell to what were then considered more normal levels.

The Bankers' Association made representations about this, pointing out that there could be some awkward notch problems arising out of the fact that the interest ceiling might be raised, and then it might start coming down before it was removed. I have given some consideration to this but I am bound to say that I can think of no happy solution.

There are two general ways in which one might proceed. The first is to provide for relaxation of the ceiling. As I understand the calculations now, it is likely that when this bill becomes law the interest ceiling, according to the amendments, will be fixed at about 7¼ per cent for the first six months in 1967. We do not know, of course, what the course of interest rates is going to be, but at the present time the average for these short-term government securities is around 4.85, I believe; and the average during the base period from which we are calculating the ceiling for this six months was close to 5½ per cent. Therefore, we could face the situation that the interest ceiling comes into effect at 7¼ per cent, then declines to a lower level—it might be 6¾ or it might even be 6½; and it could be lower, of course—and the ceiling might stay there, or it might go up again. One cannot tell what the interest rate is going to be. It might stay there and then eventually interest rates decline to an average of less than 4½ per cent, at which point the ceiling comes off.

If the purpose is to provide a transitional period to enable adjusments to be made to the situation that will arise when the ceiling comes off the formula is not working quite the right way. You could cure that by providing that the interest ceiling would never come down below its highest point. I must say that this does not attract me very much.

There could be other mechanical methods. You could give a longer period which I think could produce just as much distortion as the six month intervals we are now talking about. You could raise the trigger point; this is another possibility. It might be that if we were now proposing the bill, instead of proposing it when we did back in the middle of 1966, we might have provided a different trigger point. I could imagine that if we did that there would be no period of transition at all. We would have a ceiling of 7¼ per cent until the middle of the year, and then the ceiling would come right off. If our purpose is to provide some sort of a transition while the adjustment can be made raising the trigger point to 5 per cent would not provide very much of a transition; although it would be quite a logical thing to do, because if interest rates are coming down like that the prime rate is going to be well under 7¼ per cent, and the transition could take place.

Mr. Chairman, as I see it, we do not have any easy way out of this dilemma. I am not prepared to make any firm recommendations. I can see difficulties in adjusting it, whatever method we adopt, though I do understand the difficulties

that will arise if, in fact, the ceiling goes to 7¼, comes down a bit, and then goes along like that for quite some time, and if interest rates were to firm up again, the ceiling might not come off for a very long time. As I understand the feeling of the Committee, I think they have probably come around to much the same view as the government did, that the banks can serve the needs of the population as a whole, particularly the smaller people who are usually denied the facilities of the bank because of the effects of the ceiling on interest rates, and that it is desirable to move steadily toward the removal of the ceiling itself. So I have not been able to come up with any easy way out. The situation, if we leave the bill as it is with the amendments that we have proposed, works reasonably well. I do not think it is a very serious defect. There are bound to have been difficulties in moving from such a rigid ceiling into a period of freedom. In any event, there are going to be some difficulties involved and that is why we decided against removing the ceiling completely at the beginning; we thought it was better to provide for a transition. If I had to make a guess now I would say that the ceiling will come off. I do not believe that interest rates are going to stay up at these levels forever. When you look at the record of interest rates, in a very few short weeks we have seen them come down very, very quickly.

The CHAIRMAN: Mr. More, I think you are next.

(*Translation*)

Mr. CLERMONT: A point of order, Mr. Chairman; before the Minister spoke, you said that you had me on your list.

The CHAIRMAN: Yes.

Mr. CLERMONT: Will the Minister be here to-morrow or not?

The CHAIRMAN: Will you be with us to-morrow, Mr. Minister?

Mr. CLERMONT: Yes, then I could make my comments to-morrow about 88(5). There is an amendment but the amendment does not go far enough in my opinion. It includes dairy products and I would prefer that it covered only agricultural products.

The CHAIRMAN: We already stood up section 88, perhaps you could discuss that with the Minister when we adjourn, Mr. Clermont.

Mr. CLERMONT: Section 88 can be postponed, since the Minister will be here to-morrow, but 88 comes before 91; however, if the Minister is to be here to-morrow, I would like to have his comments on 88(5).

The CHAIRMAN: That is all right. The Minister and the Inspector General have expressed the same opinion about this clause and it might be better to discuss it with them.

(*English*)

The CHAIRMAN: Mr. More.

Mr. MORE (*Regina City*): Mr. Chairman, I was interested in the Minister's comments. I realize there is a bit of a dilemma. It certainly seems to me that the change that has taken place has been very substantial, something like ½ per cent even in the period in which we have been discussing the bill. Am I right in saying that if this bill is passed, with its present provisions, that when the act

comes into effect—suppose it came into effect in May—the ceiling rate would be 7¼ per cent?

Mr. SHARP: That is right.

Mr. MORE (*Regina City*): But on the basis of the present rate, if it held during the months of March, April and May, then on July the first would it not trigger a ceiling rate of about 6¾ per cent?

Mr. SHARP: On the basis of—

Mr. MORE (*Regina City*): It is about 5.05 per cent now, as I understand it.

Mr. SHARP: Yes, but the existing rate on three-year bonds is about 4.85 per cent but the average is somewhat over 5 per cent. It would come in at about 6¾ per cent for the second half of the year.

Mr. MORE (*Regina City*): The real dilemma, as I see it, is that we are empowering the banks to do certain things which we feel are valuable to our situation and to the public; but if there is indicated a rather substantial change in only two months after the bill might be proclaimed, it is rather an unstable period for the banks to make any adjustments and that, in effect, there might be very little improvement, expansion or competition from the banks because of this situation.

Mr. Minister, you suggested 5 per cent, which was an instant figure. If section 9 was amended on the basis of six months rather than three, and 5 per cent rather than 4½ per cent, would this not give a more stabilized period? Would this not enhance the ability of the banks to move in and attract funds to expand? And would this not, in effect, meet some of the objections that the present provisions provide? What would be the objection?

Mr. SHARP: Well, there is one very simple amendment that one could make because of the time that we think the Bank Act amendments are going to become effective, which is very shortly. We could provide that the period for the whole of this year is fixed in relation to what it would have been for the first six months. This at least would provide that period during which time the ceiling would not change—that is one very simple thing—and then thereafter have it at the six months' intervals. That would be one very simple way of providing at least a period of certainty during which time the banks could be getting out of the rather rigid position that they are in now as a result of the operation of the 6 per cent. However, I am not quite sure then what happens. I cannot predict the interest rates tonight.

Mr. LAMBERT: Well, would there not be a terrible shock if at the end of the year interest rates were to decline, if you were to fix them for the balance of 1967 on the basis that you suggest—there would be this steady continuous decline and then on January 1, 1968 there would be maybe a drop of three-quarters or 1 per cent, or perhaps more—

Mr. SHARP: Yes, but—

Mr. LAMBERT: —in the permitted ceiling.

Mr. SHARP: But if interest rates come down much further than they are now, the trigger will work at 4½ per cent and we will move from a ceiling of 7¼ per cent to no ceiling, which is what we would like to see happen.

An hon. MEMBER: You guarantee it.

Mr. SHARP: No, no; I cannot guarantee it.

Mr. LAMBERT: I would much rather see, Mr. Minister, that 5 per cent. I would put it to you that it is a much more realistic and attainable figure than 4½ per cent.

Mr. MORE (*Regina City*): I think your suggestion in respect of the balance of the year is very much in line with what I had in mind when I said six months rather than three months. It seems to me that having the uncertainty of a two months' period and then a change is not very reasonable. Some method is indicated, and I will take your suggestion for the balance of the year. You talk about shock but I cannot see that because this is the ceiling and competitive forces would still work in the meantime, and competition would have reduced the operations below the ceiling if such was the case. So the shock is removed; the trigger at 5 per cent would be reasonable, and the stretch-out of the period seems to me would be a substantive method of giving a firmer basis to banks entering fields that we desire them to enter.

Mr. FULTON: Do I understand that one of your worries was that the transition period, to use your words, is maybe too short?

Mr. SHARP: Well, I am a little bit concerned that the ceiling which comes in at 7¼ might come down to 6¾.

Mr. FULTON: Yes, but it is always a ceiling.

Mr. SHARP: It is just a ceiling, and as I said in the conclusion of my remarks, I do not believe that this is a very serious matter; even if we left the law as it is, I do not think it is very serious. However, the banks have raised this question and they do have a point.

Mr. MORE (*Regina City*): Well, in the light of what has happened, it is a point.

Mr. SHARP: Yes, it is a point but it is not going—

Mr. MORE (*Regina City*): —to improve the act—

Mr. SHARP: No, because as you have said, Mr. More, as interest rates come down all rates become competitive.

Mr. MORE (*Regina City*): Sure, they do.

Mr. SHARP: The ceiling does not govern the prime rates, for example—

Mr. FULTON: Exactly, because surely their point is only valid if interest rates stay up. If the interest rates are down—

Mr. SHARP: Yes.

Mr. FULTON: —and the ceiling is 2½ per cent over the prime rate, they are not going to charge 7¼ per cent just because it is the ceiling.

Mr. SHARP: All it hampers is the ability of the banks to provide a service to the riskier borrowers at rates above the ceiling—not prime rates, the rates above the ceiling—and it is for this reason that we suggested amendments to the act, because we believe that the banks can serve the many borrowers they are not now serving if they had some freedom to charge more than the ceiling. Those

people would then not be in the hands of the loan sharks, not in the hands of the moneylenders generally; they could come to the banks and be able to get accommodation at somewhat higher than prime rates but lower than they could borrow at from other parts of the market.

Mr. MORE (*Regina City*): And I think a feature that we all desire is that they should be able to move quickly. Is there any real objection to my suggestion or to your suggestion? Would it not be an improvement, really? Is there any reason, even though you say it might be slight, that we should not make this improvement when recommending the bill to parliament? Is there any great objection? Put your trigger at 5 per cent and put the period at six months rather than three,—or for the balance of the year, as you suggested, might even be a reasonable improvement on the present clause, which in the light of what is happening seems not to be as sound as it would have been three months ago, for instance?

Mr. FULTON: Surely, if you put it for the balance of the year, it means that they cannot go above that for the rest of this year in respect of the kind of borrowers that the Minister was describing.

Mr. SHARP: That is right.

Mr. MORE (*Regina City*): But there is no objection in the light of what is happening.

Mr. FULTON: But they would not have the flexibility to meet the needs of that class of borrower that we were referring to, who would otherwise still be in the hands of those who charge excessive rates.

Mr. CLERMONT: Mr. More, would you permit a supplementary?

Mr. MORE (*Regina City*): Yes, I will.

Mr. CLERMONT: You mention three or six months. Would up to a year be acceptable to you.

Mr. MORE (*Regina City*): Well, I do not know if I would go that far. I certainly do not see any great objection to the Minister's suggestion for the balance of this year. The present position is that you are going to have a ceiling on what the bank will base its operations come into effect on the proclamation of this bill, which may be May, and with what appears to be the trend now, that will change again on the first of July. Is that not right, Mr. Minister?

Mr. SHARP: Yes.

Mr. MORE (*Regina City*): It was to avoid this situation that I am making the suggestion for consideration.

Mr. SHARP: If interest rates continue to decline, the only handicap you face in the banks is subjecting them to a ceiling for the rest of 1967. That provides for the transition. If, on the other hand, interest rates strengthen again, at least you have avoided an unnecessary adjustment in the ceiling because of a temporary period of lower interest rates.

Mr. FULTON: No, but if you fixed it for the balance of the year and the trend in interest rates should reverse and go up again, you are squeezing the banks again because the differential would be less than 1¾ per cent.

Mr. SHARP: Well, the probabilities are that the interest rates would not be higher in the three months on which you make the calculations this year than they were in the three months of 1966 because that was a period of very high interest rates. While I am not making any predictions here, the likelihood of interest rates returning to the very high levels of 1966 do not seem to be very great. That is why I have suggested one way to alleviate this notch problem, but it might be well just to provide that the ceiling as determined for the coming into effect of the act would extend for the rest of 1967. Now, although that is one possible way of avoiding an unnecessary job it does not prevent that happening again in the future until such times as the trigger begins to operate.

Mr. MORE (*Regina City*): Well, Mr. Chairman, could I put it more directly to the Minister. I think perhaps that the banks could work, but I am afraid that it would preclude them from moving as we want them to move. Could I put it thus to the Minister: if I move, for the consideration by the Committee, an amendment changing "three months" to "six" months and changing the trigger from 4½ to 5 per cent, would it be unacceptable to the Minister? I do not know whether that is fair or not?

Mr. SHARP: Yes.

The CHAIRMAN: May I make a suggestion. It is now ten to six; perhaps we should continue our general discussion. The Minister might consider this because we are obviously going to have to continue with it tomorrow morning.

Mr. FULTON: Could I put this forward for your consideration? We are dealing with the transition period. Would you not agree that a situation in a transition period should be as flexible as possible, leaving the maximum flexibility to adjust to the movement of interest rates, whichever way they go? Would that not rather argue against fixing it to the balance of this year? You have a dilemma here.

Mr. SHARP: It is a genuine dilemma and, as I say, I do not think that it is too serious even if the interest ceiling was to come down a little bit from the level it is going to be in the first part of the year. We are in the period of transition. I believe the Committee shares my view that we should try to move toward freedom, where the banks can serve the public better, but some problems are inevitable in this period toward freedom—and I do not know which is the best way of handling it.

Mr. LAFLAMME: The main principle of this law is to implement competition. Would it not be very much less complicated to completely remove the ceiling? You raised the ceiling a few months ago and the interest rate is getting down. If the ceiling has no bearing on the interest rate itself, why not completely remove it immediately so that competition among all the financial institutions will be much more readily implemented. I understand that there might be some difficulty. I do not understand too well the word "transition" and what bearing or effect it may have on the money market itself, but I would support strongly any motion to remove the ceiling completely.

The CHAIRMAN: Unless the Minister has some comment by way of reply to Mr. Laflamme, I recognize Mr. Clermont.

Mr. SHARP: May I just make one comment on what Mr. Laflamme has said.

When we brought these amendments forward, we brought them forward in a period of rising interest rates. One of the reasons for having a transitional period was to cushion the effect of moving to freedom. We appear now to be in the period in which interest rates are beginning to decline so the consideration is rather changed. This is why we are in this dilemma. However, we cannot forecast what interest rates may do, and we might, for all we know, be in a period when interest rates have started up again, and there would be apprehension on the part of the public that the banks would be moving to freedom at a time when interest rates were rising. I think I said to Mr. Cameron in the House one day, when he made the same suggestion, that it is not so much what I fear as it is the apprehensions of the public about what may happen. This is why we have a difficult problem to deal with.

(*Translation*)

The CHAIRMAN: Mr. Clermont.

Mr. CLERMONT: My questions are directed to Mr. Elderkin. Sub-clause (2) of Clause 91 states as follows: "A rate of interest or discount". In sub-clause 4, I read: "during which the loan or advance was made notwithstanding the discount rate, etc."

Why is there only mention of the rate of discount in this sub-clause whereas elsewhere the rate of interest and the rate of discount are mentioned?

(*English*)

Mr. ELDERKIN: Mr. Clermont, I think that you have just recently received the revised amendments for clause 91 and that point is taken care of.

Mr. CLERMONT: For each paragraph, Mr. Elderkin, because—

Mr. ELDERKIN: Yes, each paragraph. In respect of this particular case, which is subclause (4), if you look at the revised amendments, you will see a new subclause (4).

Mr. CLERMONT: And (9) too, because you have the same expression.

Mr. ELDERKIN: The same thing exactly in (9). You are quite right, Mr. Clermont.

The CHAIRMAN: Perhaps we could just pause for a moment. Mr. Elderkin, could you tell us whether or not the page you have just had distributed brings together all the proposed amendments to clause 91 which were distributed in the booklets we previously had handed out to us.

Mr. ELDERKIN: That is correct, Mr. Chairman. The Idea here was to bring them all into one part. I beg your pardon.

Mr. MONTEITH: Number (4) is all-encompassing.

Mr. ELDERKIN: Yes, that is right. It takes in all the previous amendments that were presented and the amendments which are now being presented, which brings term loans in the same as discounts.

Mr. CLERMONT: Discount and interest?

Mr. ELDERKIN: That is right.

Mr. CLERMONT: Because it was not so on the previous amendment.

Mr. ELDERKIN: That is correct, and it was overlooked. We would have to have this corrected, particularly in the case of any contract loans.

Mr. CLERMONT: That is very important because otherwise they may leave the interest rate the same but increase the discount.

Mr. ELDERKIN: Well, it works both ways.

Mr. CLERMONT: Yes.

Mr. ELDERKIN: If the rate changes one way, it is going to be in favour of the bank, and if it goes the other way, it will be in favour of the contractor.

The CHAIRMAN: Is there any further general discussion on clause 91, may I suggest, particularly, with respect to putting forward suggestions which we may want the Minister to consider between now and our meeting tomorrow morning.

(*Translation*)

The CHAIRMAN: Mr. Latulippe.

Mr. LATULIPPE: May I say a few words, I will not be long.

With regard to Clause 91—

The CHAIRMAN: Mr. Latulippe, the Committee was in agreement to stand Clause 91. I am sorry—

Mr. LATULIPPE: Concerning interest rates. I think it would be practical to maintain a basic rate of 6 per cent. If interest rates are to go down, we should maintain a basic rate. If, as the Minister has said, there are loan sharks, why not establish an interest ceiling as far as these loan sharks are concerned. The Minister mentioned small loans. Banks would be allowed to lend money at a somewhat higher rate to people who could not produce required security. In such cases, why should the government not guarantee these loans? The same rate of interest could be set for everybody and if the bank is reluctant to lend to insolvent people, these loans could be guaranteed by the government. The government guarantees a great many other things. This seems logical to me.

(*English*)

The CHAIRMAN: Mr. Sharp, do you have any comments?

Mr. SHARP: Only that I hope the Minister of Finance would not have to decide which loans to guarantee and which not to guarantee. If we are going to guarantee all of them, then I am sure the banks will just bask in the sunlight of our favour and make enormous profits at the expense of the public.

The CHAIRMAN: If we have no further general discussion at this time—

(*Translation*)

Mr. LATULIPPE: You have tax on income and on profits. When there are profits, taxes must be paid.

The CHAIRMAN: That is another matter.

(*English*)

Gentlemen, I suggest that we adjourn our meeting and resume tomorrow morning at eleven o'clock, at which time we will continue with these clauses in an endeavour to complete them. I might say that until we complete our clause by clause discussion, pursuant to an earlier decision of the Committee, the hearings will be open, and then they will be in camera with respect to drafting any textual portions of our report.

We will adjourn until 11.00 o'clock tomorrow morning.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 52

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THURSDAY, FEBRUARY 23, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

WITNESSES:

The Honourable Mitchell Sharp, Minister of Finance; Messrs. C. F. Elderkin, Special Adviser, Department of Finance; and J. W. Ryan, Director of Legislation Section, Department of Justice.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25829—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,
Cameron (*Nanaimo-Cowichan-The Islands*),
Chrétien,
Clermont,
Coates,
Comtois,
Flemming,
Fulton,
Gilbert
Irvine,
Lambert,
Latulippe,
Leboe,
Lind,
Macdonald (*Rosedale*),
Mackasey,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Tremblay,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, February 23, 1967.
(105)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Fulton, Gilbert, Gray, Lambert, Leboe, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*), Tremblay—13.

Also present: Mr. Whelan.

In attendance: The Honourable Mitchell Sharp, Minister of Finance; Messrs. C. F. Elderkin, Special Adviser, Department of Finance; J. W. Ryan, Director of Legislation Section, Department of Justice; and P. M. Ollivier, Parliamentary Counsel.

The Committee resumed consideration of *Bill C-222, An Act respecting Banks and Banking.*

Clause 39 was carried.

The Committee reverted to consideration of clause 88 and after questioning of the Minister, the clause continued to stand.

On clause 91

Mr. More (*Regina City*), seconded by Mr. Lambert, moved that clause 91 be amended by

(a) deleting the words "three months" on line 12 of page 76 and substituting therefor the words "six months"; and

(b) deleting the words "four and one-half per cent" on line 13 of page 76 and substituting therefor the words "five per cent".

After further discussion and questioning the proposed amendment and the clause were allowed to stand.

On clauses 92 and 93

On motion of Mr. Clermont, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That clauses 92 and 93 be amended

(a) by inserting immediately after line 22 on page 76 thereof the following:
"92. (1) In subsections (2) to (4),

(a) "cost of borrowing" means, in relation to a loan or advance,

(i) the interest or discount thereon, and

(ii) any charges in connection therewith that are payable by the borrower to the bank or to any person from whom the bank receives any part of such charges directly or indirectly;

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(b) "credit" means an arrangement for obtaining loans or advances; and

(c) "prescribed" means prescribed by regulations made under this section.

(2) Where, after the coming into force of this subsection, the bank grants to a person a credit in respect of loans or advances repayable in Canada or makes to a person a loan or advance repayable in Canada, the cost of borrowing, as calculated and expressed in accordance with subsection (3), shall be disclosed by the bank, or otherwise as prescribed, to such person in the manner prescribed and at the time when the credit is granted or the loan or advance is made otherwise than under a credit, as the case may be; but this subsection does not apply in respect of any class of loans or advances that are prescribed as not being subject to its provisions.

(3) The cost of borrowing shall be calculated, in the manner prescribed, on the basis of all obligations of the borrower being duly fulfilled, and shall be expressed as a rate per annum and, under the circumstances prescribed, as an amount in dollars and cents.

(4) The Minister may make regulations

(a) respecting the manner in which the cost of borrowing shall be disclosed to a borrower;

(b) respecting the manner of calculating the cost of borrowing;

(c) respecting the circumstances under which the cost of borrowing is to be expressed also as an amount in dollars and cents;

(d) specifying any class of loans or advances that are not to be subject to the provisions of subsection (2); and

(e) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(5) The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer, nor, except by express agreement between the bank and the borrower, shall the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

(6) Subsections (1) to (4) shall come into force six months after the coming into force of this Act or on such earlier day as the Governor in Council may fix by proclamation.";

(b) by renumbering clause 92 on page 76 thereof as subclause (1) of clause 93 and by renumbering subclause (1) of clause 93 on page 76 thereof as subclause (2);

(c) by striking out line 1 on page 77 thereof and by substituting therefor the following:

"(3) Nothing in subsection (2) shall be con-"; and

(d) by striking out lines 6 to 9, inclusive, on page 77 thereof.

The clauses were carried, as amended.

The Committee reverted to consideration of clause 138 and, after questioning of the Minister, the clause was allowed to stand.

At 1.00 p.m. the Committee adjourned until 3.45 p.m. this day.

AFTERNOON SITTING
(106)

The Committee resumed at 4.10 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Flemming, Gray, Lambert, Leboe, Lind, Monteith, More (*Regina City*), Tremblay—(11).

In attendance: The same as at the morning sitting, with the exception of Dr. Ollivier.

On clause 91

The Minister tabled a new proposed amendment to clause 91, and after discussion and questioning, Mr. More (*Regina City*), by unanimous consent, withdrew his amendment proposed at the morning sitting.

On motion of Mr. More (*Regina City*), seconded by Mr. Flemming,

Resolved,—That clause 91 be amended

(a) by striking out lines 36 to 39, inclusive, on page 74 thereof and by substituting therefor the following:

"(a) for the period commencing on the coming into force of this Act and ending on the 31st day of December, 1967, seven and one-quarter per cent; and

(b) for any part of an interest period commencing on or after the first day of January, 1968, one";

(b) by striking out subclause (4) of clause 91 on page 75 thereof and by substituting therefor the following:

"(4) Where a loan or advance referred to in subsection (2) is made for a fixed term by the bank in one interest period and is repayable in whole or in part in a later interest period, the maximum rate of interest or rate of discount that the bank may charge on the loan or advance is that prescribed by subsection (3) for the interest period in which the loan or advance is made notwithstanding the maximum rate of interest or rate of discount prescribed for later interest periods.";

(c) by striking out lines 22 to 24, inclusive, on page 75 thereof and by substituting therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof,";

(d) by striking out lines 12 to 18, inclusive, on page 76 thereof and by substituting therefor the following:

"period of three months ending after the 31st day of December, 1966, is less than five per cent, subsections (2) to (8) of this section, subsection (1) of section 93, section 112 and subsection (1) of section 151 expire

(a) on the 31st day of December, 1967, if the last month of such period ends before the 31st day of December, 1967, or

(b) on the fifteenth day of the month next following the last month of such period, if such period ends on or after the 31st day of December, 1967,

but without affecting any loan or advance made for a fixed term in respect of which a rate of interest or rate of discount has been charged before that day."; and

(e) by striking out line 20 on page 76 thereof and by substituting therefor the following:

"(8) of this section and subsection (1) of section 93 expire shall be given by proclamation of"

After further discussion, clause 91, as amended, was allowed to stand.

On clause 88

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That clause 88 be amended

(a) by striking out lines 35 to 40 on page 69 thereof and substituting therefor the following:

"(5) Notwithstanding subsection (2) and notwithstanding that a notice of intention by a person giving security upon property under this section has been registered pursuant to this section, where, under the *Bankruptcy Act*, a receiving order is made against, or an assignment is made by, such person,"; and

(b) by striking out paragraph (b) of subclause (5) of clause 88 thereof and substituting therefor the following:

"(b) claims of

(i) a grower of perishable products of agriculture that are direct products of the soil for money owing by a manufacturer to the grower for such products that were grown by him on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment, or

(ii) a producer of dairy products for money owing by a manufacturer to the producer for such products that were produced on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment,

to the extent of seven thousand five hundred dollars of the amount of the claims of the grower or producer therefor, or the total of his claims therefor if such amount is seven thousand five hundred dollars or less;"

The clause, as amended, was carried.

Clauses 89 and 90 were carried.

The Committee again reverted to consideration of clause 76 and after further discussion and questioning the clause was again allowed to stand.

Clause 137 was carried.

At 5.05 p.m. Mr. Clermont took the Chair, at the request of the Chairman, and at 5.12 p.m. the Chairman resumed the Chair.

Schedules C to L, inclusive, were carried.

On clause 138

The Committee reverted to consideration of Clause 138, and on motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That clause 138 be amended by striking out line 8 on page 95 and by substituting therefor the following:

"is liable to a penalty of ten thousand dollars"

The clause was carried, as amended.

The Committee then resumed consideration of *Bill C-223, An Act respecting Savings Banks in the Province of Quebec.*

Clause 32 was carried.

On clauses 80 and 81

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That clauses 80 and 81 be amended

(a) by inserting immediately after line 9 on page 41 thereof the following:

"80. (1) In subsections (2) to (5),

(a) "cost of borrowing" means, in relation to a loan or advance,

(i) the interest or discount thereon, and

(ii) any charges in connection therewith that are payable by the borrower to the bank or to any person from whom the bank receives any part of such charges directly or indirectly;

(b) "credit" means an arrangement for obtaining loans or advances; and

(c) "prescribed" means prescribed by regulations made under this section.

(2) Where, after the coming into force of this subsection, the bank grants to a person a credit in respect of loans or advances repayable in Canada or makes to a person a loan or advance repayable in Canada, the cost of borrowing, as calculated and expressed in accordance with subsection (3), shall be disclosed by the bank, or otherwise as prescribed, to such person in the manner prescribed and at the time when the credit is granted or the loan or advance is made otherwise than under a credit, as the case may be; but this subsection does not apply in respect of any class of loans or advances that are prescribed as not being subject to its provisions.

(3) The cost of borrowing shall be calculated, in the manner prescribed, on the basis of all obligations of the borrower being duly fulfilled,

and shall be expressed as a rate per annum and, under the circumstances prescribed, as an amount in dollars and cents.

(4) The Minister may make regulations

(a) respecting the manner in which the cost of borrowing shall be disclosed to a borrower;

(b) respecting the manner of calculating the cost of borrowing;

(c) respecting the circumstances under which the cost of borrowing is to be expressed also as an amount in dollars and cents;

(d) specifying any class of loans or advances that are not to be subject to the provisions of subsection (2); and

(e) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(5) The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer, nor, except by express agreement between the bank and the borrower, shall the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

(6) Subsections (1) to (4) shall come into force on the day that subsections (1) to (4) of section 92 of the *Bank Act* come into force."

(b) by renumbering subclause (1) of clause 80 on page 41 thereof as subclause (1) of clause 81;

(c) by striking out lines 25 and 26 on page 41 thereof and by renumbering subclause (1) of clause 81 as subclause (2) of clause 81;

(d) by striking out line 37 on page 41 thereof and by substituting therefor the following:

"(3) Nothing in subsection (2) shall be con-"; and

(e) by striking out lines 42 to 45, inclusive, on page 41 thereof and by substituting therefor the following:

"(4) Subsection (1) expires on the day that subsection (1) of section 93 of the *Bank Act* expires."

The clauses, as amended, were carried.

By unanimous consent, the Committee reverted to consideration of *Bill C-222, An Act respecting Banks and Banking.*

On clause 151

On motion of Mr. Comtois, seconded by Mr. Lind,

Resolved,—That clause 151 be amended by striking out clause 151 on page 98 thereof and by substituting therefor the following:

"151. (1) Every bank that violates the provisions of section 91 is guilty of an offence and liable on summary conviction or on conviction upon indictment to a fine not exceeding one thousand dollars, and every

person who, being an officer or employee of the bank, violates the provisions of section 91 is guilty of an offence and liable on summary conviction to a fine not exceeding five hundred dollars.

(2) Every bank that violates the provisions of subsection (3) or subsection (6) of section 92 is liable to a penalty of one thousand dollars in respect of each such violation."

The clause, as amended, was carried.

By unanimous consent, the Committee reverted to consideration of *Bill C-223, An Act respecting Savings Banks in the Province of Quebec.*

On clause 120

On motion of Mr. Comtois, seconded by Mr. Lind,

Resolved,—That clause 120 be amended by striking out the clause and substituting the following therefor:

"120. (1) Every bank that violates the provisions of section 79 is guilty of an offence and liable on summary conviction or on conviction upon indictment to a fine not exceeding one thousand dollars, and every person who, being an officer or employee of the bank, violates the provisions of section 79 is guilty of an offence and liable on summary conviction to a fine not exceeding five hundred dollars.

(2) Every bank that violates the provisions of subsection (3) or subsection (6) of section 80 is liable to a penalty of one thousand dollars in respect of each such violation.

(3) Subsection (1) expires when subsection (5) of section 91 of the *Bank Act* expires."

The clause was carried, as amended.

The Title and the Bill, as amended, were carried.

Ordered,—That the Chairman report the Bill, as amended, to the House.

At 5.40 p.m., the Committee adjourned until 8.00 p.m. this day.

EVENING SITTING
(107)

The Committee resumed at 8.35 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Gilbert, Gray, Lambert, Leboe, Monteith, More (*Regina City*), Tremblay—(10).

In attendance: The same as at the afternoon sitting.

The Committee resumed consideration of *Bill C-222, An Act respecting Banks and Banking.*

On clause 76

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That clause 76 be amended

(a) by striking out lines 41 to 49, inclusive, on page 53 thereof and by substituting therefor the following:

"76. (1) Except as provided in this section, the bank shall not own shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than fifty per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof, in any case where the total amount paid or agreed to be paid by the bank for such of the shares of the corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the";

(b) by striking out lines 3 to 16, inclusive, on page 54 thereof and by substituting therefor the following:

"(2) Except as provided in this section, the bank shall not own shares of the capital stock of a foreign corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the foreign corporation issued and outstanding, be voted by the holders thereof, if the foreign corporation owns shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than fifty per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the

holders thereof, in any case where the total amount paid or agreed to be paid by the foreign corporation and the bank for such of the shares of the Canadian corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the bank at the coming into force of this Act, shall be sold or disposed of before the first day of July, 1971.";

(c) by adding after subclause (3) of clause 76 on page 54 thereof the following new subclauses;

"(4) The bank may own shares in excess of the maximum number prescribed by this section, if the shares are acquired through a realization of security for any loan or advance made by the bank or any debt or liability to the bank, but any such shares acquired after the coming into force of this Act shall be sold or disposed of by the bank within a period of five years from the day on which they were acquired.

(5) Notwithstanding any other provision of this section except subsection (4), where in the opinion of the Minister the ownership by the bank of shares in a corporation in any number permitted under subparagraph (i) of paragraph (a) of subsection (1) or subparagraph (i) of paragraph (a) of subsection (2) enables the bank to exercise, directly or indirectly, effective control of a trust or loan corporation, the Minister may by order require the bank to divest itself of those shares in that corporation within such time as the Minister considers reasonable and the bank shall sell or dispose of such shares within the time prescribed therefor by the Minister."

(d) by striking out subclause (6) of clause 76 on page 54 thereof and by renumbering the present subclauses (4) to (8) on pages 54 and 55 thereof as subclauses (6) to (9) respectively; and

(e) by striking out line 32 on page 55 thereof and by substituting therefor the following: "province;

(c) "foreign corporation" means a corporation incorporated outside Canada; and

(d) "trust or loan corporation" means a Canadian corporation that carries on the business of a trust company within the meaning of the *Trust Companies Act* or the business of a loan company within the meaning of the *Loan Companies Act* and that accepts deposits from the public."

The clause, as amended, was carried.

On Clause 91

The Committee reverted to consideration of Clause 91, as amended.

Mr. Monteith moved, seconded by Mr. More (*Regina City*), that consideration of clause 91 be deferred until after Monday noon next.

After discussion, and the question having been put, the motion was negatived on the following division: Yeas, 3; Nays 5.

And the question having been put on the clause, as amended, clause 91, as amended was carried, on division.

Clause 1 was carried.

The Title and the Bill, as amended, were carried.

Ordered,—That the Chairman report the Bill, as amended, to the House.

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That Bills C-222 and C-223, as amended by the Committee, be reprinted.

On motion of Mr. Clermont, seconded by Mr. Comtois,

Resolved,—That the Committee cause to be printed in blue book form 2,000 copies in English and 1,000 copies in French of its Minutes of Proceedings and Evidence in respect of the Decennial Revision of the Bank Act.

The Chairman thanked the members of the Committee for their co-operation, and also the research assistants, Mr. Baribeau and Miss Prentiss, for their assistance to the Committee.

The Committee unanimously passed votes of thanks to the Committee Clerk, to Mr. Elderkin, Mr. Ryan and other departmental officials who have assisted the Committee, to the interpreters and to the other employees of the House who have assited the Committee in its work.

The Committee also unanimously passed a vote of thanks to the Chairman for the fair and impartial manner in which he has conducted the deliberations of the Committee.

The Minister congratulated the Committee for the thorough manner in which it has considered the legislation and stated his opinion that the Bills have been improved by the work of the Committee.

The Committee then proceeded to sit *in camera* to consider recommendations for inclusion in the Report to the House.

After discussion and agreement in principle on the points to be included, the proposed recommendations were referred to the Sub-Committee on Agenda and Procedure for drafting.

At 9.30 p.m. the Committee adjourned until 11.00 a.m., Thursday, March 2, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

THURSDAY, February 23, 1967.

The CHAIRMAN: Gentlemen, I would suggest we begin our meeting even though the Minister has not yet arrived. There are several things we can attend to. First of all, one of the clauses stood is clause 39. I understand that Mr. Fulton had some points to raise with regard to it. Mr. Elderkin told me that he has discussed the matter with Mr. Fulton and has satisfied him that the matter that he was interested in is taken care of in another part of the act. Does clause 39 carry?

Clause 39 agreed to.

I would suggest that we begin our discussion on clause 88.

Mr. MONTEITH: Mr. Fulton left a memo in my office. Unfortunately he cannot be here this morning. He wondered if by any chance discussion on this could be delayed. He might be here this afternoon.

The CHAIRMAN: I am in the hands of the Committee in this regard.

Mr. MONTEITH: I do not know what he has in mind, frankly, but—

Mr. MACDONALD (*Rosedale*): Mr. Chairman, I will not be able to be here this afternoon and Mr. Ryan had specifically taken note of some questions which I believe he is in a position to answer for me now with respect to clause 88. I wonder if we could deal with this and perhaps return to it this afternoon.

The CHAIRMAN: Mr. Macdonald, I recognize you. We will continue at this stage with our discussion of clauses 88, 89 and 90 as a group because I think they are related.

Mr. Ryan, would you care to comment on this?

Mr. MACDONALD (*Rosedale*): Mr. Chairman, the question was the apparent contradiction between the status of a bank holding clause 88 security as an owner and the status of a manufacturer who, but for clause 88 security under the general law, would be regarded as an owner. I wanted to know—what legal hazards a third party dealing with the manufacturer is faced with in acquiring goods without the waiver of the bank, whether or not, he has knowledge of section 88.

Mr. J. W. RYAN (*Director, Legislation Section, Department of Justice*): Mr. Chairman, I have gone through clause 88. I have not had an opportunity of looking at the jurisprudence, but based on the provisions of section 88 it would seem that where manufacturer had acquired a loan from the bank and notice of intention had been filed on his behalf in accordance with the requirements of Section 88, the security the bank acquires is similar in rights and powers to that

which they would have acquired under a warehouse receipt or a bill of lading. The effect of that is set out in Section 86:

> 86.(2) (a) all the right and title to the warehouse receipt or bill of lading and to the goods, wares and merchandise covered thereby of the previous holder or owner thereof,—

—vests in the bank. So that a purchaser from a manufacturer in these circumstances is acquiring property for which the title of the manufacturer is, to say the least, encumbered. However there is an anomaly in the situation, inasmuch as the purpose of the loan by the bank is to permit the manufacturer to carry on his business, which is manufacturing and selling goods. So, if there is not an actual consent by the bank to the transaction by the manufacturer, there is possibly an implied consent. In addition, I understand it is the custom of trade that the bank takes additional security by way of an assignment of book debts, so that there is both the proceeds of the sale as well as the other security available to the bank.

In the normal course, again reading the intent of the section, I would think that the bona fide purchaser for value from a manufacturer is usually safe. If he has any doubts, of course, and knows of the notice of intent, he could probably ask the authority of the manufacturer to sell the secured goods, in which case he would probably see the consent and have notice of it. In the other case, he might be able to assume in the course of business and the situtation of the loan that there is an implied consent by the bank to the sale and he would, in all probability, be quite safe. However, if the transaction was in fraud of the bank, then I do not think the consent would run and the bank would probably be able to follow its security. In the normal situation they would probably be more inclined to go to the proceeds or the book debts of the sale rather than to the article.

That is about as much as I can say on the question on the basis of clause 88.

Mr. MACDONALD (*Rosedale*): The right to pursue the articles in a fraudulent situation would be a right independent of any right that the bank might have under the fraudulent conveyances provision of the Bankruptcy Act, would it?

Mr. RYAN: I think it would stem out of the title they have in the secured articles.

Mr. MACDONALD (*Rosedale*): This question has occurred to me. If you were an abundantly cautious purchaser acquiring a large inventory from a manufacturer, are there any steps you would take to protect yourself in this regard? Is there any customary practice here to get over this problem of the apparent dam against free commercial transactions?

Mr. RYAN: Perhaps Mr. Elderkin might help me on that one. Is there any transaction which a purchaser from a manufacturer goes through?

Mr. C. F. ELDERKIN (*Special Adviser, Department of Finance*): In most cases where security is taken under clause 88 on a moving inventory the bank gives consent to the manufacturer for the sale of inventory in the normal course of trade.

Mr. MACDONALD (*Rosedale*): He gives that in writing, does he?

Mr. ELDERKIN: I believe so, yes.

Mr. MACDONALD (*Rosedale*): And is it the customary practice for substantial purchasers to investigate or to check that authority with the bank?

Mr. ELDERKIN: I am not at all sure. I could not tell you what the customer's practice was, but it is available to him. Normally a manufacturer operating under clause 88 must have that type of consent. He could not operate otherwise.

Mr. LEBOE: Mr. Chairman, is it not a fact that they often make assignments to the bank so that the payments are made directly to the bank?

Mr. ELDERKIN: Mr. Leboe, that happens in some cases but by no means in all cases. As a matter of fact—

Mr. LEBOE: This is quite a general practice in some industries. I know in the lumber business it is a very general practice to assign your receipts directly to the bank.

Mr. ELDERKIN: What happens quite often, Mr. Leboe, is that they take a general assignment of book debts, but if the bank wishes to be sure of the matter, then they will take a specified assignment, and in that case the debtors are notified to pay directly to the bank. But often in the meantime, if the credit of the borrower is considered to be good, while they have a general assignment they do not register it.

Mr. MACDONALD(*Rosedale*): This is a general question to Mr. Elderkin and perhaps he may not be in a position to answer it, but would you agree that perhaps this rather unique authority that takes security on goods and process is the primary advantage that a Canadian chartered bank has over any other lender in the field?

Mr. ELDERKIN: I think it is also a very primary advantage to the processor, too.

Mr. MACDONALD(*Rosedale*): I am thinking of the chartered bank. We have been talking about bank competition with relation to other similar institutions, but is it not section 88 which really gives them the edge in commercial transactions?

Mr. ELDERKIN: Well, Mr. Macdonald, I think that actually under the Bank Act revisions that are before you he could take security outside section 88. One advantage he has under section 88 is that he will register the notice of intention with the Bank of Canada and thereby make his security valid. If it was done outside section 88 presumably he would have to register with some kind of a registry in the province.

Mr. MACDONALD (*Rosedale*): This is not a question, it is more a comment, but it seems to me that none of the provincial securities I know of give the advantage this section does over goods and process.

Mr. ELDERKIN: I think you are quite right. This was an intentional power that was given.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, that answers the line of questioning I had. Thank you.

(*Translation*)

Mr. CLERMONT: In regard to 88 (5), I notice that in the amendments proposed on the 22nd of February, paragraph (b), sub-paragraph (ii) was

extended to include dairy products. I would like to hear from Mr. Elderkin or from the Minister why, instead of the words "perishable products", why we do not accept the definition on page 4, paragraph (X) of Bill C-222, French version, which reads as follows:

"products of agriculture" includes

(i) grain, hay, roots, vegetables, fruits, other corps and all other direct products of the soil, and

(ii) honey, maple products, live stock (whether alive or dead), dairy products, eggs and all other indirect products of the soil;

instead of, as suggested in the amendment paragraph 5, sub-paragraph (b).

(*English*)

The CHAIRMAN: Perhaps Mr. Elderkin could comment first. The Minister has just arrived and is getting settled.

Mr. ELDERKIN: Mr. Clermont, The original intent of this particular clause was actually to protect what you might call the captive shipper. The people who are producing perishable products of agriculture, such as fruits and vegetables, are normally under contract to sell to one buyer. This is the custom in the business because the processor must program his production to be able to take the goods fresh from the field and process them within 24 hours or less. As this grower is what I in effect call a captive shipper, the idea is to give him some protection because of that and because of the fact that he is selling practically all of his year's work, if you will, to one buyer and has no opportunity under his contract to sell to anyone else.

The addition of the dairy products was a slight deviation from this, although that again is a contractual operation. The question you are asking is why de we not put all products of agriculture under this. I think there are a number of very good reasons.

This could actually work to the detriment of the grower rather than to his benefit. Clause 88, where it relates to these particular loans and other loans which are made under it, is, of course, unique in banking fields both here and abroad, but it was done for the purpose of permitting a growing industry to get credit where capital, in effect, was not available. If we put provisions in this bill which would make it more difficult for these processors to borrow—as I think I said at an earlier stage—you take the risk of putting many of them out of business altogether.

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, in view of the fact that Bill C-222 enables the banks to lend on security, can the banks not use this additional guarantee over and above section 88? I realize as you do that there is a danger in covering too many products in 88, but on the other hand, you mention that a farmer or a fruit grower may lose six months or a year's work. The same thing is true a livestock breeder who may lose six months or a year's work might not be wise to include too many products and it might eliminate certain manufacturers. On the other hand, if the law is ready to provide an additional guarantee which does not presently exist in section 88, paragraph 5, to producers of perishable products,

why not extend this coverage to others, livestock breeders, for instance? In your amendment, you included dairy products. Mr. Ryan was saying yesterday, may, the Court in last resort, have to decide what constitutes a perishable product. But this would mean that the producer, if the bank does not recognize a given product as a perishable product, will have to go to Court. So, besides the possibility of making a loss, he will also have the Court costs involved in getting a definition of a perishable product.

(*English*)

Mr. ELDERKIN: Well, if this was the case he would not have to go to the courts, the trustee would have to go to the courts. I think I would like to go a bit farther on this particular point, Mr. Clermont.

I quite realize your interest in trying to protect the producer of farm products. I would imagine that if we ever went the whole way and brought in all the products of agriculture under some type of a priority that it would be very difficult to resist the requests of all the other primary producers, such as those of the sea, lakes and rivers and those of the land and mines, and so on. I do not think there is a great deal of difference in that particular matter and this is why I would like to go back to my original statement that the idea was to protect the captive shipper. He is the only one we were really trying to protect.

I would like to add that if we make this so difficult or so relatively unimportant from the point of view of the banks as to the value of their security, they are apt to go to another type of security altogether, and that is a general charge on all the assets, in which case there is no protection for the grower whatsoever. Unless the Bankruptcy Act were amended there would be no protection for him.

(*Translation*)

Mr. CLERMONT: There can be recommendations in another field of action, amending the Bankruptcy Act, for instance, this is not the problem before us now.

(*English*)

Mr. ELDERKIN: No, but if they get an amendment to the Bankruptcy Act of that kind it is quite possible that it can follow through.

I am just offering an opinion and it is a matter for the Committee's judgment, but I think in trying to extend this to cover a greater number of products of agriculture that in the end you may do more harm than good to the grower as far as that is concerned.

The CHAIRMAN: Mr. Cameron is next, followed by Mr. Lambert.

Mr. CLERMONT: Mr. Chairman, I had not finished. We have granted privileges to people who are not here and we have stood the section, but I am not entirely satisfied with clause 88 (5).

(*Translation*)

The law only defines advances made to the manufacturers who produce perishable products or dairy products, if this Bill is adopted as now suggested by

the amendment tabled on the 22nd, only the products delivered to the manufacturers, will be covered but the law permits, under section 88 (1) (a) that

(1) The bank may lend money and make advances

(a) to any wholesale purchaser or shippers of or dealer in, products of agriculture. . .

(b) to any person engaged in business as a manufacturer. . .

Why in 88 as amended, paragraph 5, a producer of dairy products for money owing by a manufacturer to the producer.

(*English*)

Mr. ELDERKIN: Mr. Clermont, my original statement was that we are dealing here with a contract between a captive grower and the manufacturer. There is no shipper involved in the question of perishable fruits and products. They are delivered directly to a manufacturer. In the case of dairy products, they are delivered directly to a creamery, which is a manufacturer.

Mr. CLERMONT: I will agree with you, sir, that the producer—

Mr. ELDERKIN: There is no question of a shipper or a wholesaler being involved in it. That is the reason it is not mentioned.

Mr. CLERMONT: I will agree, sir, concerning dairy products, that they are usually sold to a processor or manufacturer. However, cattle may be sold to a wholesaler.

Mr. ELDERKIN: Yes, but we are not dealing with cattle here.

Mr. CLERMONT: No, I know. We are not dealing with that because it is not included in the amendment that has been suggested to this Committee, but I am trying to get it included and I do not seem to be getting very far. Excuse me, Mr. Monteith?

Mr. MONTEITH: I just said you are putting up a good fight.

Mr. CLERMONT: Mr. Whelan brought up a certain bill in 1963, and we had briefs presented by many organizations, but the one that I am familiar with is the Canadian Federation of Agriculture and they mentioned cases where the people that sold cattle lost money.

Mr. ELDERKIN: Well, I quite agree that there are cases where people who sold cattle have lost money. I think you will find this right through the whole system.

Mr. CLERMONT: I know that anyone can lose money.

Mr. ELDERKIN: I can only say that the reasons I have advanced are the reasons that the government feels are in support of the sections as amended, and it really goes back to my original statement—which I will reiterate—that it is for the protection of the grower who is really a captive of his purchaser.

Mr. CLERMONT: I have a final question on this subject. I have no wish to delay the proceedings too much because I am not gaining any ground. This question is addressed either to the Minister or Mr. Elderkin. Could the amount not be increased?

Mr. ELDERKIN: Yes, Mr. Clermont. I think you will remember that I discussed this matter quite fully at an earlier stage in the proceedings when I was

talking about the various sections. You can increase this, but the more you increase it the more danger there is of cutting off the credit to the processor altogether.

Mr. CLERMONT: I know. It is all right to worry that a processor or a manufacturer will not be able to get an advance under clause 88, but I think we also have to worry about the producer as well. He may lose his shirt because he sold his product to a firm that went bankrupt.

Mr. ELDERKIN: We have one of the large firms of liquidators study cases that happened in recent years, and the $5,000 limit would have covered over 90 per cent of the creditors of the firms. Of course, the $5,000 also applies to the remaining creditors. In other words, as the amendment stands they are secured for the first $5,000. It is a matter of balance—as I think I used the word before—just what figure you pick, because if you go too high it means that the processor cannot get the money and therefore the grower cannot find a place for his product. If you do that you either force the processor out of business or you force him into the hands of very much higher lending operations from other sources which, if they were going to lend him money, would normally take—as I mentioned before—a charge on all of the assets of the processor.

Mr. CLERMONT: But, Mr. Elderkin, if I remember correctly, one comment made by the bankers was that if the ceiling is lifted or they can charge a higher rate of interest they may add some other risk to their line of credit.

Mr. ELDERKIN: Well, that is their risk, though.

Mr. CLERMONT: Yes, I think any loan, unless it is guaranteed by government bonds, and so on, may have some kind of risk attached. My last remark, Mr. Chairman, has to do with the fact that clause 88 is stood, and this will be brought to the notice of the Minister, but in the meantime could we perhaps think about increasing that $5,000 to $7,000?

Mr. SHARP: Mr. Chairman, I have discussed this provision with Mr. Elderkin and on the basis of his experience with the act and the discussions that he has had with liquidators and others who have had some experience, he has persuaded me that this would be the wise thing to do. I cannot pose as an expert in this matter. I have listened to my officials and the case they have put to me has convinced me that this is in the best interests of all concerned.

Mr. CLERMONT: So, if I bring in an amendment to raise it to $7,500 my chances of putting it through would be very thin? That is the kind of question that Mr. More asked last night about a certain rate of interest. Thank you, sir.

The CHAIRMAN: Well, I trust we can, continue our discussion on this portion of clause 88. I believe, Mr. Cameron, followed Mr. Lambert, have some questions to bring forward.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would like to reinforce some of Mr. Clermont's arguments with the statements that were made by the people who are affected by this legislation and who appeared before this Committee. The Canadian Federation of Agriculture do not appear to share your anxieties, Mr. Elderkin, that the proposals that they make and that Mr. Clermont has in effect presented here would endanger the operations under this act. I

would like to quote from this particular part with regard to the extensions of coverage to other commodities. They have this to say:

> We do not really see any valid reason why this protection should be limited to growers of perishable crops and not extended to producers of livestock, poultry and livestock and poultry products, and also to growers of crops that might not be designated as perishable. If there has been an opinion that the limitation was acceptable because nobody else was interested in this protection, we would hasten to correct his misconception.

Now, I would imagine that the Canadian Federation of Agriculture had examined the possibilities of this very carefully before they made this suggestion. I would think their sources of information would at least be as adequate as yours, Mr. Elderkin, in that regard, and they appear to have no misgivings at all about the desirability of extending the coverage to other types of commodities. Then they have something to say—which I do not think Mr. Clermont mentioned —with regard to the time limit of three months.

Mr. CLERMONT: Mr. Cameron, if you will allow me, I did not have much success in the other three! I have to be frank, too. I did have a certain degree of success because they have included dairy products.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have done that, yes, so I will pick up the torch where you left it.

They point out that in many cases the payment can be delayed for a considerable period of time under a contractual agreement which would exceed the three months. They have this to say:

> It is not impossible that some type of contractual arrangements would involve delays in payment for the working out of the details of the contract.

But if it exceeded three months, they are eliminated. I wonder what Mr. Elderkin would think about expanding that period to a longer period than three months, possibly six months. Mr. Clermont has mentioned the limitation of $5,000, and I would like to reinforce this again by a statement from the brief of the Federation of Agriculture, which I think is something we must bear in mind:

> —in this day and age $5,000 of product by no means represents an adequate level of production if a man is trying to make a living from that production.

I think this is very true. When this section was first put in the act it may have been that $5,000 was a reasonable level of total production for the year but it is not now; it has to be much more than that or a man cannot stay in business when you are only going to compensate him for $5,000. I noted that Mr. Elderkin, when he mentioned the research he had done in this, said that he found that $5,000 would cover 90 per cent of the cases; that is, of the cases under which the provisions of section 88 had been invoked. I wonder, Mr. Elderkin, if you have any idea of what percentage of the total cases of loans granted under section 88, on which no action was required because the recipient remained solvent, would be covered by $5,000? This would seem to me to be the important thing.

Mr. ELDERKIN: Well, may I take your three points in reverse. On the question of the fact that $5,000 was something that might have been appropriate when this was first proposed, I would point out that this was first proposed only two years ago.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, and it was hardly adequate then. This Government is always inadequate, Mr. Elderkin.

Mr. ELDERKIN: I doubt whether there has been that much change. Secondly, you spoke of an entire year's crop. Well, this does not necessarily apply at all. In other words, he may be delivering two or three types of vegetables or he may be delivering only one type of vegetable, or one type of fruit, but—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But the manufacturer does not just deal with one type.

Mr. ELDERKIN: He does as far as the individual grower is concerned.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have spoken of people being captive—

Mr. ELDERKIN: Well, I have mentioned him as a captive. The third point that I think I would like to make here is that it is probably time that some of these contracts were reviewed and revised. I know I worked as a travelling auditor in the canning business for a matter of a few years and I know that what is said is correct, but often these contracts call for delivery in the spring and payment in the fall. Well, this is entirely a matter—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It is a long wait sometimes.

Mr. ELDERKIN: Yes, but I asked the question why the grower will sign such a contract.

The CHAIRMAN: Mr. Elderkin, you have already given the explanation, he is a captive.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): He is a captive, yes.

Mr. ELDERKIN: Well, this is the whole point, if he wants to grow for that processor he is a captive.

Mr. MACKASEY: Is that processor not also a captive in the sense that without the products of the immediate farms around him he cannot exist?

Mr. ELDERKIN: Well, that is true, that is the reason he put his plant there. Now, we had this discussion when Mr. Whelan was on, and I brought up the same point I did today, that if you make this too restrictive by increasing the amount of the priority or by extending the term, or things like that, you may succeed in cutting off the bank credit to this particular grower or this particular processor altogether. I think Mr. Whelan's remark at that time was that there were a few that he did not mind having the credit cut off.

Mr. MORE (*Regina City*): I think he said there were a couple of cases where it would be a good thing.

Mr. MACKASEY: I think in some cases they should be cut off.

Mr. ELDERKIN: Well, this is a matter which the Committee has to take into consideration.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But on the other hand, Mr. Elderkin, the position you are taking really boils down to the fact that you consider the producer must take the risks in order to finance the operations of the processor. You are asking the producer to take the risks.

Mr. ELDERKIN: If he is prepared to take the risks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): As you have told us, he has no option; he is a captive.

Mr. ELDERKIN: He may not have any option but he has an option up until the time he signs the contract.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, not in reality because if you earn a living on this particular piece of land which is suitable for a certain product, and there is a processor in the neighbourhood to whom he is a captive, he has no option unless he is going out of business and taking some other type of work.

Mr. ELDERKIN: What is he going to do if the processor goes out of business?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Well, as I say, the people who seem to be more closely involved in this than any others, who are the producers, do not seem to share your anxieties in this.

Mr. ELDERKIN: It is not an anxiety on my part. The anxiety on my part, if you want to use the term, is a question of whether the processor can obtain credit or not.

Mr. LIND: What process of law has the primary producer at his disposal to get his money if the bank has the manufacturer under section 88, and possibly at the same time, under the new Bank Act, has a first mortgage on the property?

Mr. ELDERKIN: He has the same process as any other creditor.

Mr. LIND: Can he file a mechanics lien for delivering this produce? I did not think he could.

Mr. ELDERKIN: I do not think produce comes under a mechanics lien, Mr. Lind.

Mr. LIND: What protection has he got?

The CHAIRMAN: I presume, Mr. Elderkin, that if the Committee accepts this amendment he would have a special priority over the bank in the event—

Mr. ELDERKIN: In the case of insolvency, yes. He has what Mr. Ryan has referred to as a priority within a priority.

Mr. CLERMONT: This is in the case of dairy products?

Mr. ELDERKIN: That is right. I am only giving you the pros and cons of this. There are two sides to the argument. The Federation of Agriculture have expressed an opinion and I am just expressing another one, that is all.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Elderkin, the third point—and I think Mr. Clermont brought this up as well—which the Federation of Agriculture deals with is the confining of this to manufacturers, and they had

this to say: We do not know precisely what the definition of a manufacturer is but we do know that the bank may lend money under this section not only to manufacturers, but to wholesale purchasers or shippers or to dealers in products of agriculture. We would very strongly recommend that the provisions of clause 88(5) be extended to include all such classes of persons. We do not see why this should not be so. Now, you have stated, Mr. Elderkin, that there are no wholesalers or jobbers or shippers who come into the picture, but I wonder if that is strictly accurate.

Mr. ELDERKIN: Mr. Cameron, this remark that you have just read is relevant to their other suggestion that all the products of agriculture should come under. If all the products of agriculture came under then you would have to bring in shippers.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This is not quite right, Mr. Elderkin. This is a final reservation with regard to the act as it now stands under the amending bill. The final reservation we have about this section is that the protection to producers is limited to claims for money owing by a manufacturer. I do not think this is tied in with the other parts of their recommendation. I think you will find, in certain areas where fruit and vegetables are produced, that jobbers and wholesalers do come into the picture. They are not all manufactured, they do not all go to the canning company, and the producer who sells to a jobber or a wholesaler has no protection.

Mr. MORE (*Regina City*): They are bound to make bargains.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not really see that he has to be a captive. Mr. Elderkin just threw it in that many of them were captives.

Mr. ELDERKIN: I would not think the introduction into clause 88(5) of a wholesaler or a shipper changes the situation very much at all, if such a situation occurs. I took the Federation of Agriculture brief—notwithstanding the fact of their final recommendation—in the context of their whole submission, and definitely if you bring in all the products of agriculture you would, of course, have to bring in wholesalers and shippers. To the best of my knowledge this has never been a matter in so far as perishable products are concerned, that has ever come to my attention, the fact that anything but a manufacturer was involved. I think the situation that may arise here is the one that Mr. More just mentioned, where buyers go around and perhaps buy fruits and vegetables, but in a situation where it is a transient, I should imagine that in most cases this would be a cash operation.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I did not have transients in mind. I had in mind the situations which I know of in my own area. Among my constituents I have a number of producers of vegetables who sell directly to a number of retail stores, and a retail store that is being financed by the banks might very well come within this purview.

Mr. ELDERKIN: At the present time retail stores are not financed by the banks.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): They might be.

Mr. ELDERKIN: They might be in the future. That is right.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Financed under section 88, but these other types would not be.

Mr. ELDERKIN: They would not be under section 88.

The CHAIRMAN: If I could just intrude for a moment. We started off with a discussion of clause 88 because at that time the Minister had not yet arrived at the meeting, and I understand that the Minister may have to be in the house this afternoon because of the flow of house business requiring his personal participation. Now, we wanted the Minister with us . . .

Mr. FULTON: What do you have there?

Mr. SHARP: Well, I am not certain, but George McIlraith has been frightening me!

Mr. FULTON: Is it your income tax bill on the earlier budget resolutions?

Mr. SHARP: The earlier budget resolutions or the small business loans or the pension plan.

Mr. MONTEITH: I do not think that was listed last night.

Mr. SHARP: Was it not? I did not see the report last night.

Mr. MACKASEY: The degree of co-operation with the Opposition has been so great that we are liable to get all our bills this afternoon!

The CHAIRMAN: In any event, all I am trying to suggest is this. We originally were going to . . .

Mr. SHARP: May I add, Mr. Chairman, that if I am not required in the house I will be happy to come here.

The CHAIRMAN: Yes, but what I was going to suggest is this. Originally we were going to start off this morning by continuing our discussion of clause 91, and so on, and the other clauses on which we particularly wanted comments from the Minister. As I understood it, clauses 88, 89 and 90 were not really amongst that group. I was going to suggest that perhaps we might revert to clause 91, especially since some further thoughts have been brought forward by some of the members.

Mr. FULTON: Mr. Chairman, before you do that, may I ask the Minister for his opinion on one question with regard to clause 88.

I am not sure whether the Minister was present, but in a discussion with Mr. Elderkin I raised the point of registration in registries of chattel mortgages, as well as in the agency or office of the Bank of Canada, as giving, in my view, an appropriate and, indeed, requisite notice to all of the existence of the banks' security. In as much as in British Columbia and in some other provinces—I am not sure how many—there are now central registries of chattel mortgages, it would minimize the problem of what office you register in, and so on. I was going to ask the Minister whether he has a view on or a reaction to the suggestion that at least in those provinces where there are central registries the requirements should be to register the Section 88 security there as well as with the office of the Bank of Canada?

Mr. SHARP: Mr. Chairman, I had an opportunity of talking to Mr. Elderkin about the point. I was not here during the discussions. I think it is impractical and unwise for various reasons. I believe there are now facilities that enable notice to be given or, in other words, at least the borrower has to reveal that his chattels are under some sort of lien when he is applying for a loan.

Mr. FULTON: Yes, but he may have a section 88 security and then go to some unsuspecting person and get a chattel mortgage on cattle, for instance.

Mr. ELDERKIN: Could I interject, Mr. Fulton?

Mr. FULTON: Certainly.

Mr. ELDERKIN: The notice of intent, if you will read Schedule K in the Bank Act, does not specify anything about security at all except that the borrower gives notice that he intends to borrow under the provisions of Section 88. Now, this does not necessarily refer to a chattel mortgage, it may be a commercial loan of any kind. There are no particulars whatsoever as to what the security is going to be, and if it was a requirement that all notices of intention under Section 88 be filed in a central registry, you would have notices of intention which had no relationship, if you will, to items which normally fall under chattel mortgage.

Mr. FULTON: That might be so but, on the other hand, you would have notice that—

Mr. ELDERKIN: You would only have notice that he was borrowing under clause 88, and he may have been borrowing under any one of the clauses. He might not be borrowing on anything in the nature of a chattel mortgage whatsoever.

Mr. FULTON: No, no, but section 88 security gives the bank a prior right as against previous creditors of whom it has notice. It gives them a prior right with respect to the property, subject to Section 88 security. If the same borrower then goes to another individual and borrows money from him on the security of a chattel mortgage, that mortgagee is subsequent to the bank with respect to the security of the property. What I am after is a system under which notice of the existence of Section 88 security with respect to those chattels may be given to other prospective lenders because now, as you know, if you are contemplating lending money on a chattel mortgage for cattle or other chattels, you search the central registry to see if there is any prior security.

Mr. ELDERKIN: Well, I will just repeat, Mr. Fulton, that you would be getting, perhaps, hundreds of notices of intention that had no relationship to chattel mortgages whatsoever.

Mr. FULTON: I do not think I have made my point clear.

Mr. ELDERKIN: I see your point all right, but what you are saying is that this particular person has given notice of intention to borrow under Section 88. It may be something in which the central registry has no interest whatsoever or—

Mr. FULTON: I mean because it may be growing crops or—

Mr. ELDERKIN: Oh yes, he may be borrowing to buy binder twine, he may be borrowing to buy feed grain, all kinds of things like that. It is the rare case and the only case that British Columbia has raised—

Mr. FULTON: What security is he giving?

Mr. ELDERKIN: On the seed grain, it is on the crops grown from the seed grain and in the case of agricultural equipment, on the equipment. All of these Section 88 provisions—

Mr. FULTON: Well, the equipment is certainly capable of being covered by a chattel mortgage.

Mr. ELDERKIN: All the provisions in there that relate to farmers are for the purpose of lending money for an expenditure. They do not cover the question of lending money on something already acquired.

Mr. FULTON: I am sorry, Mr. Elderkin, I do not think I agree with you there. If I have 100 cows or cattle not covered by any other security, I can go to the bank and borrow money under Section 88 and I give as security my cattle.

Mr. ELDERKIN: It is the one subsection or clause in the farmers' section, if I might call it that, where this can be done. In all the others, it is for the purchase of something.

Mr. FULTON: All right. Now, you take equipment or farm machinery, that is a ready and available object of chattel mortgages.

Mr. ELDERKIN: Yes, but as far as the bank loan is concerned it is going to be for the purchase of that equipment.

Mr. FULTON: Yes, but with purchase the security attaches to the chattel.

Mr. ELDERKIN: Yes.

Mr. FULTON: Or, in the case of the cattle, the security attaches to the cattle. All I am asking is why is it unreasonable to require when that kind of security is taken that the bank should, in addition to registering it at the Bank of Canada office, register it at the central registry of chattel mortgages? Then notice is given to all the world that there is a prior security on these chattels.

The CHAIRMAN: Would this require a change in provincial legislation so that the central provincial registry could accept the document? Can the registry accept this document at this time? Assuming your suggestion were to be accepted by this Committee and by the government, could the provincial registries, either central or localized, accept such documents without changing the provincial law? I just raise this question—

Mr. FULTON: I think you have a point there. I would say, provided the proper form of registration required in the provincial law were used, that it would be accepted. My thought was that in those provinces where there are central registries and where the law is in such form as to make it possible, then there should be registration there in addition.

The CHAIRMAN: I think Mr. Macdonald has been trying to ask a supplementary question.

Mr. MACDONALD (*Rosedale*): I am not sure of the system in British Columbia but the draftsmen of the Ontario personal property law proposed to have this type of central registry, and particularly if you went into the local county court office where you would now search for bills of sale, chattel mortgages and conditional sales, all filings in all the provincial offices would automatically be relayed to a central point and you would have the advantage, when dealing in credit terms with any particular borrower of knowing all outstanding obligations

that he might have against himself or his property. To the extent that is does come into effect in this province, I would be very much in favour of Mr. Fulton's suggestion that it be possible also to have any additional federal liens registered in the same place so you can get a dossier at once of the credit standing of the particular person with whom you are dealing.

The CHAIRMAN: Would you in effect have a central registry now in each province with respect to section 88 because of the allowance to the Bank of Canada?

Mr. ELDERKIN: As far as I know there are only two provinces which have central registeries and from what I understand a third one is in the course of preparation.

The CHAIRMAN: I am referring to the fact that at the present time these have to be registered with the Bank of Canada?

Mr. ELDERKIN: There is a central registry with the Bank of Canada in each province.

Mr. MACDONALD (*Rosedale*): For example, in Ontario you have to check at Toronto and the advantage, in the Ontario system, of having it plugged into the provincial system would be that you could check it locally instead of having to retain a Toronto agent to make the search for you.

Mr. ELDERKIN: But you can check in Toronto, Mr. Macdonald, by means of a simple telegram at no cost except the telegram.

Mr. MACDONALD (*Rosedale*): Except that when you have your solicitor check the registery for other security documents he would be able to get all the information at once.

Mr. ELDERKIN: Well, surely it is not going to take him much time to send a telegram.

Mr. MACDONALD (*Rosedale*): Well, why not centralize all the credit information?

Mr. ELDERKIN: Let me go on for just a minute on this. The fact of filing this would not be sufficient. You would have to go through all the routine which the banks now go through with the Bank of Canada. You can file a notice of intent to borrow but six months from now it may have expired. If the borrower does not come in and ask for a release on this it probably stays there. The bank does not pull it out except on the request of the borrower or after a five year term. After a five year term they must file a notice of all those which they wish to extend. Now, this would mean they would have to go all through the same operations with the central registry that they have to go through with the Bank of Canada. I think you have the problem here, in fact, of dealing with separate provincial central registries, or whatever you wish to call them under the circumstances. Just how such a thing would be drafted into the Bank Act, if it has to be done, is something which I would leave to my friend on my right. Then you have the further problem, possibly, that if the bank failed to do this would it invalidate its security?

Mr. FULTON: It would have to be appropriately drawn, as against a prior lender in good faith?

Mr. ELDERKIN: No, but suppose there has not been a prior lender.

Mr. FULTON: Well, even a subsequent lender.

Mr. ELDERKIN: In other words, you can have two places where the security may be invalidated?

Mr. FULTON: Yes.

Mr. ELDERKIN: Instead of one.

Mr. FULTON: But that could be cured by the simple device of registration. It is not really very onerous to file notice in a central registry.

Mr. ELDERKIN: I am not speaking entirely of the filing of a notice. Supposing they do not file it? Then, presumably you would also have to provide in the Bank Act, subject to legal opinion, that if they did not file it it did not invalidate the security. At the present time if they do not file with the Bank of Canada the security is invalidated. You have to have a further provision in case they did not file within the particular province.

May I give you another example of one of the difficulties?

Mr. FULTON: One of the important points, surely, is that the types of commodities which may come under section 88 are being extended. I think this is good. I think it is logical and reasonable for us to say that you can now take many more types of security under section 88 but you will be required to register them—not everywhere, but in one central registry—because there are going to be things which have not hitherto been thought to be the kind of thing which section 88 security attaches to. I think it is only reasonable that notice should be given.

Mr. LAMBERT: I am having a little difficulty. I see what Mr. Fulton is trying to do but I just wonder whether the point you raise is not really an insuperable barrier at this time because various provincial statutes establish the priorities. For instance, failure to register within a certain time in the province of Alberta requires a court order validating your late registry, subject to any accrued rights of third parties. I do not know that the provincial legislation at the present time would allow you to merely file a notice of intent. What they might require you to do when you do give the security is file one of the other schedules in which you describe the property and where it is situated and the exact nature of the charge, the amount of it, and everything. I do not know that the provincial legislation would allow you at the present time to file a notice for an indeterminate amount and on goods that are not specifically described.

Mr. ELDERKIN: Well, your notice of intent, of course, does not specifically describe any goods.

Mr. LAMBERT: This is the difficulty about the notice of intent.

Mr. LAMBERT: But there may be a point as to the requirement of filing not a notice of intent but, shall we say, one of the other schedules wherein there is precisely described the commodities that are covered.

Mr. ELDERKIN: Yes.

Mr. ELDERKIN: Yes, but these are not filed.

Mr. LAMBERT: I grant you these are not filed.

Mr. ELDERKIN: The documents between the borrower and the bank.

Mr. LAMBERT: This is so.

Mr. FULTON: My point is this, that by filing the notice of intent the bank is protected with respect to its security against any subsequent lender. If he does not file a notice of intent, then the bank is postponed subsequent lender without notice in good faith. In other words, they do not have the security. Now, why not extend this to the filing of the notice in the central registry of chattel mortgages and give it the same effect, that if no notice is filed and a subsequent chattel mortgage is given on these chattels, then again the bank's security is postponed simply because it did not give notice.

Mr. ELDERKIN: Notwithstanding the fact that it had filed notice of intent with the Bank of Canada?

Mr. FULTON: Yes.

The CHAIRMAN: May I make a suggestion? It is obvious from the discussion up until now that there are various aspects of this point which are quite complex. Inasmuch as it may be that the committee—I am not saying it is going to do this—will recommend that matters of this type be given to this committee or its successor for study at more frequent intervals than 10 years—I am not talking about a general revision, but matters that come up, and so on—that this might be something we could usefully look at in further detail if and when the development of central registries in the provinces accelerates.

Mr. MACDONALD (*Rosedale*): Perhaps we could suggest this as an agenda item to the Minister for his next discussion with his provincial counterparts.

Mr. SHARP: I am sure they will raise it.

On Clause 91—*Powers re interest*

The CHAIRMAN: Perhaps we might revert to clause 91. When we adjourned yesterday evening Mr. More had made a suggestion, on an informal basis, as to some modifications in the existing terms of clause 91. I believe the Minister indicated there might be some consideration given to this suggestion. I do not know if he is in a position to make any comments.

Mr. SHARP: Well, Mr. Chairman, I have been doing some thinking about this. As I said earlier, I do not think there would be any very serious problems if we did not amend the bill at all, but if the committee is disposed to do so, I would like to make two or three observations.

First of all, I do not think the ceiling should be lifted immediately. I believe it would be wise if there were a transition from the present 6 per cent ceiling to complete freedom.

Secondly, I think it may help in making the transition if the ceiling that is to be fixed on the basis of the first calculation should continue to the end of 1967 rather than for a very short period or, indeed, some variation of that to have it extend for six months from the time that it comes on. Then, perhaps, if we do that we could then consider whether the trigger point itself might not be raised.

Mr. MONTEITH: You mean the present formula?

Mr. SHARP: Yes, the present formula as a possible method of ensuring that we move towards freedom rather than being in this rather indeterminate position for quite some time.

If we were to raise the trigger point to 5 per cent without making the other adjustments, then I think we could be faced with virtually going to freedom almost immediately. I believe that some transition period is desirable. Those are the observations I would like to make, Mr. Chairman.

The CHAIRMAN: Mr. More, perhaps I should call on you.

Mr. MORE (*Regina City*): Mr. Chairman, on the basis of what the Minister says I would like to move that clause 91(9) be amended to change the period of three months to six months and the trigger point to 5 per cent instead of 4½ per cent.

The CHAIRMAN: Have you a seconder?

Mr. MORE (*Regina City*): I do not know.

Mr. LAMBERT: I will second the motion.

The CHAIRMAN: Perhaps you could reduce this to writing while we have our discussion?

Mr. MORE (*Regina City*): Well, you have the clause. It is just two points in the clause, six months and 5 per cent. It is lines 13 and 14 of clause 91(9).

The CHAIRMAN: Oh yes, this is at page 76 of the draft bill.

Mr. MORE (*Regina City*): Yes, in line 13 you change the three months to six months and in line 14 you change the 4½ per cent to 5 per cent.

Moved by Mr. More (*Regina City*), seconded by Mr. Lambert:

> That Bill C-22, an Act respecting Banks and Banking, be amended (a) by striking out lines 12 and 13, on page 76 thereof and by substituting therefor the following:
>
> "period of six months ending on or after the 31st day of December, 1966, is less than five per cent,"

(*Translation*)

Mr. CLERMONT: Mr. Elderkin, in changing from three to six months, with present experience in interest rate, is it likely the ceiling will be removed before the end of 1967?

(*English*)

Mr. ELDERKIN: Well, if somebody could forecast for me what the trend of interest rates is I could give it to you.

(*Translation*)

Mr. CLERMONT: My question is hypothetical, I admit, but it is not the first time you have been asked hypothetical questions since we have been revising the Bank Act.

(*English*)

Mr. ELDERKIN: Well, Mr. Clermont, there has been in the recent past quite a substantial drop in interest rates. I believe they have leveled off in the last couple of weeks and therefore I do not know what the trentd is today. A month ago the trend was definitely down, and at one time I think on short terms it was about 4.85.

(*Translation*)

Mr. CLERMONT: Last evening I was reading an article that said, in this connection, that the trentd was changing in respect to interest? In December, the trend was to a lower rate, is the trend towards a lower rate or a higher rate now?

(*English*)

Mr. ELDERKIN: I think the trend—and I have not got the latest figures to back me up—has been rather level, if you will, for some little time now. There is a possibility that it will go up again if there is a large volume of securities placed on the market or an attempt is made to place them on the market. This might push the trend up again for a short while. If the trend which was in effect up until about a couple of weeks ago were to continue for an average period, then it is quite possible that the 5 per cent would trigger it sometime this summer. Now, what the Minister has mentioned here is the question—if the 5 per cent is put in—whether it should be provided that the rate which was established last November should continue until the end of December of this year. Now, that rate is 7 1/4. This has been established on the three months average short term. I think the point you raised, Mr. More, on the possibility of basing this on a six months average has some weaknesses in it in that you get a much slower reaction out of this than you do on the three months. We picked the three months on the basis that this would operate faster when you are working on averages. If you have to wait for six months to establish an average I think you will get a slower reaction to the market and I do not, quite frankly, see where you are getting any benefit out of it. If you want a reasonably quick reaction or a sensitive reaction that way, the six months average does not give it to you, particularly if you take the first part of your suggestion and move to carry the present established rate through to the end of the current year.

Mr. MONTEITH: I was just going to ask, Mr. Chairman, how do you tie that in with the Minister's suggestion that it might be wise to carry the first established rate through to the end of 1967?

Mr. ELDERKIN: Well, that is what I say, if you carry the established rate through to the end of 1967, but I believe the point in Mr. More's amendment is that thereafter it would be a six months average instead of a three months average that established the rate. I think this has some weakness in it in that it does not operate as quickly as the three months average is liable to operate. It cannot operate as quickly as the three months average is liable to operate, that is all there is to it. The shorter the period the quicker you get an effect.

Mr. LAMBERT: May I ask this question for clarification. In other words, do you feel that in order to allow for the period of transition, that the formula as

described in subclause (9) should apply to the end of 1967, but that thereafter the three months formula, based on 5 per cent, would then perhaps be a little more flexible and would bring on the lifting of the ceiling?

Mr. ELDERKIN: Well, you get that much faster reaction that is all.

The CHAIRMAN: As I understood the Minister, and this is a complex subject, his view was that the modification in the trigger point should not be made unless there is some certainty that there will be restraint on the maximum rate for a period of at least until the end of the year. Did I get the right impression?

Mr. ELDERKIN: That is right. He proposed or, at least, he suggested for consideration that the established rate which was established at the end of November last, and which is in effect 7¼ per cent, should be carried through to December 31 of the current year. In other words, the trigger would not work in that period no matter what happened but thereafter, if I understand his suggestion correctly, the trigger would work if the Committee saw fit to put it at 5 per cent.

Mr. MORE (*Regina City*): In other words, the trigger could work on January 15, 1968?

Mr. ELDERKIN: No. Well, we use it on a straight three months average. It could work on January 1, 1968 on that basis.

Mr. MORE (*Regina City*): It would work on January 1 and become effective on the—

Mr. ELDERKIN: Once the trigger works it becomes effective immediately.

Mr. MORE (*Regina City*): Now subclauses (2) and (8) of clause 92 would expire on the 15th of the month following?

Mr. ELDERKIN: Yes. There is a notice period in there, I am sorry.

Mr. MORE (*Regina City*): Yes. This is what I was referring to.

Mr. ELDERKIN: That is right. There has to be a notice period. I repeat that working to a six months average after this year is over makes it less flexible than it is on the three months average. However, if what you have in mind here is that the present maximum rate, no matter what happens, would be carried through to December 31, 1967, and thereafter the present formula would come into effect, namely, if the trigger is not going to work in the early part of 1967, then commencing in 1968 your rate would be established by a three months average ending November 30 of this year, it would only be effective in January, but if by that time you were down to the trigger rate, then it would come off on January 15.

Mr. MORE (*Regina City*): Can you propose wording to that effect so that I could—

Mr. ELDERKIN: If this is what you have in mind, Mr. More, and if you will just give it to us in intention, we will work on it at noon.

Mr. MORE (*Regina City*): Well, my intention was that there be a period of stability. I did not like this idea of two months, and a bit of stability in the initial period is what I was looking for.

Mr. ELDERKIN: Well then, do I have it right for Mr. Ryan's drafting that the rate now established shall be continued to December 31, 1967?

Mr. MORE (*Regina City*): Yes.

Mr. ELDERKIN: That from then on the rate for the first six months in 1968 will be the rate established by the formula for the three months ending November 30, 1967, unless the trigger works—

Mr. MORE (*Regina City*): Unless the trigger works.

Mr. ELDERKIN: —and at any time in there a trigger works on 15 days notice.

Mr. MORE (*Regina City*): I think I would suggest that your initial reply has covered the points that I had in mind when I raised the matter. I perhaps misunderstood the Minister. I thought when he said to the end of the year that he would not be against the six months either.

Mr. ELDERKIN: No. I think I had in mind just the same point you had, Mr. More. I really think we ought to provide for a period of transition before the ceiling comes off.

Mr. MORE (*Regina City*): This is the point that I had in mind and—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): How long a period?

Mr. ELDERKIN: Well, I thought to the end of the year would be a reasonable time, but this is a matter of judgment. As I said earlier, if the Committee did nothing and just left the bill as it is, I do not think that it is going to shake anything, but if we want to try to improve this a bit, try to make it somewhat more in conformity with what I believe to be the views of the Committee, namely, to have a period of transition and then move to freedom, then this would be a more certain way of doing it. However, even if we left the trigger point at 4½ per cent it would work, although it might not work very well. You might have that jog there in the beginning of 1968.

Mr. MORE (*Regina City*): In our earlier discussions we had indications from some economists that they thought the trigger point might not work during the life of this bill. I think I would like to see a clause drawn on the basis of what you have expressed for consideration.

Mr. ELDERKIN: With the trigger rate at 5 instead of 4½ per cent?

Mr. MORE (*Regina City*): Yes.

Mr. ELDERKIN: We will arrange the necessary drafting before this afternoon's session.

The CHAIRMAN: Yes. I have already asked Mr. Ryan to relate your suggestions, Mr. More, to the draft amendments we already had tabled yesterday to make sure that they are entirely consistent throughout, and I am sure that the Committee is concerned about the impact of this formula on borrowers who may now for the first time be able to get loans through banks.

Mr. MORE (*Regina City*): You might say that it is quite a major adjustment that is going to be made in the whole community.

The CHAIRMAN: Now, clause 91 and the amendment stands so that drafting can take place.

Mr. MACKASEY: Are you now moving off from clause 91?

The CHAIRMAN: Well, I would suggest to the Committee that it would be more useful to continue our discussion once we have Mr. More's suggestions put in proper wording, and also consistent with the other amendments which were tabled yesterday.

Mr. MACKASEY: I would like to bring another matter up, and if you think I am wrong you can just cut me off. I would like a minute or two to relate what I am concerned about in Clause 91. It is the inefficiency or the lack of effectiveness of the small Businesses Loans Act. Four or five years ago when I was in business—I am no longer—I found it virtually impossible to interest the banks in this particular act, and I have come to the conclusion that the banks found it more profitable to loan money over a shorter period of time than that provided for in the Small Busineses Loans Act, and I was wondering why we did not encourage the banks under that act to participate more fully in that act by permitting the banks a higher rate of interest because of the length of the period of the loan to small businessmen. Now, presuming this was done, would it require an addition to subclause (6) of clause 91, because the interest I am thinking of that the bank could charge would be higher than is prescribed under this act.

Mr. ELDERKIN: Well, Mr. Mackasey, the Small Businesses Loans Act, as I recollect, is up for amendment now, which would be the proper place to put this, but the interest rate in the Small Businesses Loans Act is determined by the Governor in Council and it would not make any difference; we would need no amendment in this act whatsoever because the Small Businesses Loans Act always has a "notwithstanding" in it.

The CHAIRMAN: That being the case, I think perhaps we can leave a detailed discussion of the Small Businesses Loans Act to that legislation itself.

Mr. MACKASEY: Yes, now that Mr. Elderkin has assured me that whatever amendments are introduced, as far as the rate of interest is concerned, will in no way be jeopardized by this particular act.

Mr. ELDERKIN: No, Mr. Mackasey, they would not be jeopardized by this at all.

On Clause 92—*Definitions. "Cost of borrowing."*

Mr. CLERMONT: I move that Bill C-222, An Act respecting Banks and Banking, be amended (a) by inserting immediately after line 22 on page 76 thereof the following:

Definitions.

"92. (1) In subsections (2) to (4),

"Cost of borrowing."

(a) "cost of borrowing" means, in relation to a loan or advance,

(i) the interest or discount thereon, and

(ii) any charges in connection therewith that are payable by the borrower to the bank or to any person from whom the bank receives any part of such charges directly or indirectly;

"Credit."

(b) "credit" means an arrangement for obtaining loans or advances; and

"Prescribed."

(c) "prescribed" means prescribed by regulations made under this section.

Disclosure of cost of borrowing.

(2) Where, after the coming into force of this subsection, the bank grants to a person a credit in respect of loans or advances repayable in Canada or makes to a person a loan or advance repayable in Canada, the cost of borrowing, as calculated and expressed in accordance with subsection (3), shall be disclosed by the bank, or otherwise as prescribed, to such person in the manner prescribed and at the time when the credit is granted or the loan or advance is made otherwise than under a credit, as the case may be; but this subsection does not apply in respect of any class of loans or advances that are prescribed as not being subject to its provisions.

Calculation of cost of borrowing.

(3) The cost of borowing shall be calculated, in the manner prescribed, on the basis of all obligations of the borrower being duly fulfilled, and shall be expressed as a rate per annum and, under the circumstances prescribed, as an amount in dollars and cents.

Regulations.

(4) The Minister may make regulations.

(a) respecting the manner in which the cost of borrowing shall be disclosed to a borrower;

(b) respecting the manner of calculating the cost of borrowing;

(c) respecting the circumstances under which the cost of borrowing is to be expressed also as an amount in dollars and cents;

(d) specifying any class of loans or advances that are not to be subject to the provisions of subsection (2); and

(e) respecting such other matters or things as may be necessary to carry out the purpose of this section.

Account charges and minimum balance.

(5) The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer, nor, except by express agreement between the bank and the borrower, shall the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

Coming into force.

(6) Subsections (1) to (4) shall come into force six months after the coming into force of this Act or on such earlier day as the Governor in Council may fix by proclamation.";

(b) by renumbering clause 92 on page 76 thereof as subclause (1) of clause 93 and by renumbering subclause (1) of clause 93 on page 76 thereof as subclause (2);

(c) by striking out line 1 on page 77 thereof and by substituting therefor the following:

"(3) Nothing in subsection (2) shall be con-"; and

(d) by striking out lines 6 to 9, inclusive, on page 77 thereof.

Mr. MACDONALD (*Rosedale*): I second the motion.

The CHAIRMAN: Let us move on then to clauses 92 and 93. You will note that on February 22 Mr. Elderkin tabled a further revision of the previous revision of clauses 92 and 93 relating to disclosure of cost of borrowing, and perhaps Mr. Elderkin could explain the further revision and perhaps he could also tell me if I am correct in saying that this revision incorporates the suggestion from this Committee with respect to the forms of business and individuals covered under it?

Mr. ELDERKIN: Yes. Mr. Chairman, as the first amendment was advanced on this it applied only to individuals, but there were several points raised in Committee and particularly that it should govern what is incorporated as the small businessman. So, in the redraft of the amendment that is before you now it applies to all borrowers, no matter who they are, but I draw your attention to one reason why this is quite easy to do, and that is because in the provisions of the amendment the Minister can make regulations specifying any class of loans or advances that are not to be subject to the provisions of subclause (2). Therefore the Minister by regulation can set as an example, in the case of corporation loans a minimum figure where this would be applicable, which would probably cover the question about bringing the small businessman's loans under this legislation but leaving the big corporation outside. This has been done in other jurisdictions. This is really the only change that is in here.

Mr. Lambert also raised the point on the question of regulations. Regulations, of course, have to be issued to the bank, and he asked whether the regulations would be made public. They will have to be made public, quite frankly, because they will include all of the combined charges which the banks might charge.

Mr. LAMBERT: What I was particularly concerned about is in order to satisfy this Committee what is being done under the regulations, that the regulations should be referred back to this Committee in due course after they are in effect so that we can examine the impact. After all, we are giving the Minister power and it is the same thing that I had in mind under the insurance deposit discussion, that whatever regulations made there would be referred back to this Committee for examination when they are proclaimed, and if the Minister undertakes to do that, well, I will be very happy.

Mr. SHARP: I have no objections, Mr. Chairman.

Mr. LAMBERT: Alright, fine.

The CHAIRMAN: Mr. Clermont and then Mr. Fulton.

Mr. ELDERKIN: Paragraph (4) of which clause, Mr. Clermont; clause 91?

(*Translation*)

Mr. CLERMONT: We are studying 91, are we not?

The CHAIRMAN: No, we are studying 92 and 93.

Mr. CLERMONT: Thank you, Mr. Chairman.

(*English*)

Mr. ELDERKIN: If I interpreted correctly what you said before, you are referring to what is at present clause 92 where:

> The bank may, in discounting a bill of exchange, promissory note or other negotiable instrument...

Mr. CLERMONT: No, Mr. Elderkin, I called to your attention yesterday, and before this meeting, that in clause 91, subclauses (4) and (9) in the present bill, we use the word "discount" instead of "interest".

Mr. ELDERKIN: Mr. Clermont, the amendment is in clause 91, both to subclause (4) and subclause (9), to bring in loans which are for a contractual period.

Mr. CLERMONT: Thank you.

The CHAIRMAN: Mr. Fulton?

Mr. FULTON: I am just worried about the possible necessity of a consequential amendment to the amendments tabled, Mr. Elderkin.

The CHAIRMAN: That would be nothing new.

Mr. ELDERKIN: We have been doing that for some time.

Mr. FULTON: Looking at the amendment to clauses 92 and 93, you have, in effect, inserted a new clause 92, and you do not want that to expire at all, do you? This is to be a standing provision regarding disclosure.

Mr. ELDERKIN: That is right; but this is taken care of in the over-all amendments.

Mr. FULTON: Yes, but you have also—I am not sure I am clear on this, it is terribly complicated—moved clause 92 down to be subclause (2) of clause 93.

Mr. ELDERKIN: That is right.

Mr. FULTON: And you have re-numbered the present subclause (1) of clause 93.

Mr. ELDERKIN: That is right, but clause 92 does not expire.

Mr. FULTON: If you have your provisions for disclosure under the new clause 92, will you, in fact, want the old clause 92 to expire, or will you not want it to continue in force?

Mr. ELDERKIN: No, the old clause 92 will expire.

Mr. FULTON: Do you want it that way?

Mr. ELDERKIN: Well, it might as well expire because it is only a question of a charge on the expenses of collection in addition to discount, and it is really inoperative if there is no maximum rate of interest or discount.

Mr. FULTON: Just let me get the import of that for a moment. What you are saying is that there will no longer be a maximum rate of interest or discount when the trigger works.

Mr. ELDERKIN: Yes, when the trigger works.

Mr. FULTON: And there will now be full disclosure of all such charges, whatever they may be.

Mr. ELDERKIN: That is right.

Mr. FULTON: Therefore, it is all right to let clause 93(1) expire?

Mr. ELDERKIN: That is correct.

Mr. FULTON: Thank you.

The CHAIRMAN: Is there further discussion on the amendment?

Mr. MONTEITH: I have a question.

The CHAIRMAN: Yes, I now recognize you, Mr. Monteith.

Mr. MONTEITH: Mr. Chairman and through you, the Minister or Mr. Elderkin, going back to the 1954 evidence there was conflicting interest as to the legality of consumers' loans discount. We are apparently, at least for a while, going to have a ceiling. As Mr. Fulton said, he found it a little difficult to follow, and not being a lawyer, I find it just that much more difficult. In round terms, is any question of legality of discounted loans going over that limit now taken care of?

Mr. ELDERKIN: Not in discounted loans; if you look at subclause (5) of the amendments to clauses 92 and 93, you will see the provision which, in the first part, at present appears in section 93(3) of the act, which says:

> The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer.

This is the matter of service charges, as you are aware. This was submitted to the Department of Justice some years ago and their opinion was that if there is an express agreement between the bank and the customer, this charge is legal. Actually, you may recall that this particular opinion was quoted in the House some years ago by the then Minister of Justice. However, there must be an express agreement to make it legal.

Mr. MONTEITH: If there is this express agreement, what form does it take?

Mr. ELDERKIN: An express agreement with respect to a service charge. Now this is what is used on the consumer loans at the present time, of course. That is, they sign an express agreement for the service charge in addition to the interest.

Mr. MONTEITH: Covering life insurance or anything it may be?

Mr. ELDERKIN: Anything that is involved in the cost of a loan, all of which, under our disclosure recommendations here, would have to be stated on a percentage basis except in the case of demand loans.

Mr. MONTEITH: Even though that percentage basis is over 7¼?

Mr. ELDERKIN: Oh, yes; the percentage relates to the combined interest and charges.

Mr. MONTEITH: Do I gather from this that the agreement is the compulsion of a customer to keep a balance on deposit as a percentage of a loan?

Mr. ELDERKIN: This is new. If you will read the remainder of (5), we have now added in clauses 92 (3) and 92 (5):

> ...nor, except by express agreement between the bank and the borrower, shall the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

Mr. MONTEITH: This has that effect.

Mr. ELDERKIN: Yes, that is right. That part of it is new and arises out of discussions in the Committee on so-called compensating balances.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This would leave us in the position of providing quite a loophole; the express agreement may be signed almost under duress.

Mr. MACKASEY: I agree.

Mr. ELDERKIN: The voice of experience, Mr. Mackasey?

Mr. MACKASEY: Yes, and I am quite proud to say so.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not know how you would get around it.

Mr. ELDERKIN: No, I do not know how you would get around it otherwise. The matter of duress would be only in the case where, presumably, the borrower did not have access to any other source of money.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Can I refer this back to the discussion we had yesterday when Mr. Lambert advanced an idea of how to make a distinction between the different types of borrowers? It tied in with what Mr. Paton told me in answer to a question the last time he was on the stand. When I asked him whether it was possible for the banks to calculate and express total charges in terms of an interest rate, Mr. Paton said yes, it was possible to do so and, as I recall it, that he thought they would be able to do so. Then he put in a caveat at that point and said "except for large corporate borrowers, who are sophisticated borrowers and are accustomed to negotiating", who should be left free in that field. I am wondering if Mr. Lambert's point—

Mr. ELDERKIN: Actually they are not left free now. But let me put it this way: you have the situation, I think as you heard from one of the witnesses when the bankers were here that large corporations would almost invariably prefer to carry a minimum credit balance to paying service charges. If they are going to have service charges, they are going to have to do a lot of bookkeeping to look after it. They are much happier although, if they have an express agreement that they wish to carry a minimum credit balance rather than pay service charges; this is quite sensible.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Quite sensible, yes; but on the other hand an institution that does not want to do it may find the only basis on which they are going to get the loan is to sign the agreement. Now is there not some way that we can—

Mr. ELDERKIN: I am afraid not, Mr. Cameron. The banks are not required to make loans unless they want to.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I know they are not, but they could be required to express it in terms of interest rates.

Mr. ELDERKIN: Oh well, they are.

Mr. MACKASEY: In the case of a compensating balance, how will they show that in disclosure?

Mr. ELDERKIN: Very easily, if it is related to the loan. In other words, if it is 10 per cent of the loan, and the interest rate is 7 per cent on the loan, that is 7.7 per cent.

Mr. MACKASEY: Will they be obliged under disclosure?

Mr. ELDERKIN: Unless that type of loan is exempted by the Minister's regulations, which it normally will be for large corporations, I presume.

Mr. LIND: Mr. Chairman, what percentage of total bank loans will be exempted under this?

Mr. ELDERKIN: This discussion has not got to the point of having the Minister fix the percentage as yet. I would not know what they were. Are you talking about sizes?

Mr. LIND: No, I am not talking about sizes; I am talking about the over-all amount of the loans. If they loan $1 billion, will 90 per cent of it be exempted?

Mr. ELDERKIN: I do not think it would work that way at all, Mr. Lind. If you are working on a figure, as I believe some other jurisdiction does, if the amount of the loan or credit is over a certain figure the whole loan is exempt.

Mr. MORE (*Regina City*): Say that again?

Mr. ELDERKIN: If the amount of the credit under which the loan is made is over a certain figure—whatever equation point you want to pick—then the bank is exempted from stating.

Mr. FULTON: You say in some jurisdictions that is the practice?

Mr. ELDERKIN: Yes, so I understand.

Mr. GILBERT: What jurisdictions, Mr. Elderkin?

Mr. ELDERKIN: I am speaking from hearsay, but I understand it is $25,000.

The CHAIRMAN: It is my understanding from a lot of the evidence we have that the practice of banks in recent years of asking for a compensating balance in addition to interest as a condition of giving a loan is a reflection of the increased cost of money, if I may put it that way. It may well be, with the relaxation of the present rigidity on the interest rate ceilings, that this practice will diminish to a great degree. If it does not, perhaps this Committee will then be authorized to examine the situation as exists at that time, and find out why a practice, which was explained as being a reflection of an unnatural situation with respect to money and interest rates, continues in a new period of normalcy. Do I make myself clear?

Mr. ELDERKIN: Mr. Chairman, with regard to the question of compensating balances with respect to loans, this has been a very common practice in the United States for many, many years. It is now a fact that they are gradually getting away from compensating balances; they have found that a compensating balance is not all profit to the bank by any means, for the simple reason that they have to maintain a cash reserve on the compensating balance. So we catch them a little bit there.

An hon. MEMBER: They will find a way around it.

Mr. ELDERKIN: No, we are quite sure they will not find a way around it, because this is a deposit under the definition. But there is a tendency to get away

from compensating balances where they can use a free interest rate. I notice now—I read a report a short while ago in the federal reserve bulletin—that the American banks are getting away from compensating balances and are using a straight interest rate, or service charge.

Mr. CLERMONT: I think we were told, too, that a compensating balance is not only for a loan. The bank may request a compensating balance for a number of cheque issues too, without any additional charges.

Mr. ELDERKIN: That is right, as long as it is not related to the loan. This is another matter entirely; it does not come under the disclosure provisions at all.

Mr. MACKASEY: Mr. Clermont, brought up an excellent point there. If this privilege of compensating balances is the justification for compensating loans in the future, then they will not have to divulge it under the section of the act that says they must divulge the interest rates.

Mr. ELDERKIN: If it is not in relationship to the loan, no, because this is only on the cost of loans.

Mr. MACKASEY: In other words, they could interpret it as being in relation to the situation Mr. Clermont brought up. Would that not circumvent the purpose of the clause you brought in earlier?

Mr. ELDERKIN: You can do it in one of two ways. If you block them out from taking credit balances to cover the cost of operating an account, they will simply turn around and use service charges on it, as far as that is concerned. So, to use an expression, "you can't win".

Mr. MACKASEY: It all comes back to the wisdom of the Porter commission, that we should not have any ceiling on interest at all and let everyone compete. I think if we faced our responsibility and did not worry about politics this is what we should have done in the first place. It seems obvious to me, with all the loopholes they can invent, that they are going to get whatever interest they want out of the Canadian people. We should not have a ceiling at all and let them compete with everybody else.

The CHAIRMAN: Assuming they are competing.

Mr. LEBOE: Mr. Chairman, I think I got that clear. In your opinion, we cannot win.

The CHAIRMAN: Not in my opinion. I always thought that parliament was supreme and that is why I suggested to the Committee that it might be useful at some later period, if this section were not having the beneficial effects sought—and I am hopeful myself—to examine the matter to see what the practices are at that time.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Do not give them too long or they will think up some other excuse.

Mr. LEBOE: I have just one point. In effect, they have these compensating balances that they have been asking for. Did I understand you to say that they have to take them into consideration as a deposit on which there is a reserve requirement by the Bank of Canada?

Mr. ELDERKIN: That is right. Normally that would be a 12 per cent one, too.

The CHAIRMAN: Is there any further discussion on these amendments?

Mr. CLERMONT: Mr. Chairman, with respect to the proposed amendments to clause 92, (b) states:

> (b) by renumbering clause 92 on page 76 therefore as subclause (1) of clause 93 and by renumbering subclause (1) of clause 93—

I heard a remark made by Mr. Fulton that it was sometimes hard to understand these amendments. If it is hard for a lawyer to figure out you can understand how it is for us. Mr. Chairman, does it mean that the provision on clause 92 in the proposed bill No. C-222, whereby the bank can charge, one-eighth and one-quarter of one per cent will disappear after the ceiling is off?

Mr. ELDERKIN: No. All of this is a matter of redrafting to make room for the disclosure provision. We are just moving the present clause 92 and subclause (1) and (2) of clause 93 into one section.

Mr. CLERMONT: I agree, but I am referring to clause 91, revised. Subclause (1) of clause 92 will disappear when the ceiling is off.

Mr. ELDERKIN: But in the amendment it is clause 93.

Mr. CLERMONT: As it is now in Bill No. C-222 it is clause 92(1).

Mr. ELDERKIN: That is correct.

Mr. CLERMONT: But it will be renumbered as clause 93(1), and when the ceiling is off clause 93(1) will be gone too.

Mr. ELDERKIN: That is correct.

Mr. CLERMONT: That means the banks will be allowed to charge the rate they wish? As it is now it is one-eighth or one quarter.

Mr. ELDERKIN: No, Mr. Clermont. The rate of discount is set by the—

Mr. CLERMONT: I am not speaking about discount I am speaking about cash—

Mr. ELDERKIN: Yes, I understand what you mean. This is what I thought you were referring to a few minutes ago when I discussed with you the fact that this will no longer be operative, because if the ceiling comes off they can charge any rate they like on the discount. There is no particular object in having service charges which they can put in anyway under the other clause.

Mr. CLERMONT: Thank you.

The CHAIRMAN: I have a question with respect to clause 93(2) on page 77. I guess that will be clause 93(3) at the present time if the amendment is carried.

Mr. ELDERKIN: When you say clause 93(3) do you mean the government clause?

The CHAIRMAN: Yes, that is correct. This is the clause which, in the existing act, authorizes the government to maintain a certain amount of money on deposit with the chartered banks without payment of interest in return for certain services provided by the—

Mr. ELDERKIN: The government will insist that they do not do this in return for certain services notwithstanding some other people's opinions.

The CHAIRMAN: That is what I wanted to ask you. I just want to clarify this. Some months ago, while this Committee was sitting, the Public Accounts Committee tabled a report in the House questioning the practice of the government in maintaining certain amounts of money on deposit in the chartered banks without receiving interest, and immediately I brought this to the attention of this Committee and asked for explanations from Mr. Elderkin. As I recall, the explanations at that time were based on the fact that this was specifically authorized by law under this section and that services were performed by the banks with respect to government cheques, and so on, which more than made up for the lack of interest.

Mr. ELDERKIN: There are a couple of points here, Mr. Chairman. The government does not, at any time, guarantee to keep $100 million on deposit and never has. As a matter of fact, it has run down as low as $7 million, and not too long ago. There is no guarantee to keep $100 million. It is only that if the amount on deposit exceeds $100 million, then the interest is payable by the banks on a rate which is one-quarter of one per cent less than the treasury bill rate on a weekly basis.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is on the excess of $100 million?

Mr. ELDERKIN: In excess—over. But let me point out to you another thing. Because of the peculiar way the government keeps its books—

An hon. MEMBER: Hear, hear.

Mr. ELDERKIN: The balances to which reference has been made are the balances shown on the books of the government with no consideration given to outstanding cheques. Now, this is where the difference is. It is entirely possible, even if there is $100 million there, that there is float out against it at the time. It is nothing more than the usual arrangement, really that any corporation is required to a great extent to do to cover the outstanding float. This is the general principle of it.

The CHAIRMAN: As a matter of fact, before the tabling of the most recent Auditor General's Report this point was considered and discussed in this Committee and explanations given. I gather, from what you say now, that you will continue to consider this and feel that the matter is covered for the reasons you have given and also under the provisions of the law.

Mr. ELDERKIN: I just wanted to emphasize that the government takes the view that this is not recompense for services rendered.

The CHAIRMAN: If there is no further discussion shall the amendments proposed by Mr. Clermont and seconded by Mr. Macdonald carry?

An hon. MEMBER: What clauses?

The CHAIRMAN: They are clauses 92 and 93. I think the simplest way to take them is en bloc. Shall the amendments carry?

Amendments to clauses 92 and 93 agreed to.

Clauses 92 and 93, as amended, agreed to.

The CHAIRMAN: Mr. Macdonald has asked if he might have the indulgence of the Committee for a few minutes before we adjourn to make some brief comments on clause 138, because he has to attend another function this afternoon when we will be reaching this clause.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, on Tuesday when we discussed the matter, and particularly the amendment to raise the penalty under this clause, both Mr. Wahn and I made some observations. I am not holding myself out as representing his views, but I have two comments on the clause. I realize it is late in the game to be proposing anything in the nature of a very fundamental amendment but I would like to submit for the Minister's consideration two changes.

First, with respect to the maximum limit which is to be $10,000 pursuant to the amendment, the sum of $10,000 is a lot of money to me and to everybody else here around this table, but in comparison with the advantage to the banks for running a successful combine for two or three years, a $10,000 penalty is really like a licence fee to shoot moose out of season. I can see no particular reason why the maximum limit should not be taken off and, as under the Combines Investigation Act, there should be the potential for a very much larger penalty. I think the maximum should be taken off.

The second change, which is a suggestion I made to Mr. Elderkin, is that for the purpose of being assured of carrying out a successful prosecution where a situation has been identified, the provisions of the Combines Investigation Act might be incorporated by reference under this clause. Mr. Elderkin observed at the time that there was a risk of duplication because the Inspector General of Banks was carrying out many of the functions that the Director of Investigation and Research under that statute carries out. I agree that there would be some difficulty in making a bald incorporation in this clause, and I suggest to the Minister that perhaps consideration could be given to adding to this clause such provisions of the Combines Investigation Act as might ensure some reasonable success in prosecution.

I would like to remind the Minister of the wreck-strewn history of the Combines Investigation Act or, rather, those provisions of the law which are now incorporated in it. I would like to make the suggestion that if the following powers are not already held by the inspector general they should be included. They are: those under Section 9 of the Combines Investigation Act requiring written returns; Section 10 authorizing entry into premises and Section 11 for the inspection of documents. In addition—I do not think you have this one—It seems to me that by far the most important provision, if you were only to include one of these, is the provision of Section 41 of the Combines Investigation Act with respect to evidence against the corporations and the banks. You might consider Section 41(a)—the jurisdictional provision—and also, if you do not already have it, see whether Section 31(a) which confers the special remedy of requiring subsequent returns might also be incorporated here.

Mr. ELDERKIN: Would you mind turning to clause 65(4) of the bill?

Mr. MACDONALD (*Rosedale*): No, that clearly does not meet the situation. I believe I am correct in saying that the provisions of Section 41 of the Combines Investigation Act are unique in the federal law and were enacted specifically for the purpose of assisting a prosecution in proving an offence under that statute.

This, of course, has reference only to acquiring evidence, but whether or not certain documents will be evidence, once acquired, is dealt with by Section 41, and I think it might seriously be considered here. Thank you, Mr. Chairman.

The CHAIRMAN: I will bring the Committee up to date. Remaining to be dealt with—and the Clerk will correct me if I am wrong—are clause 76, clauses 88, 89 and 90—which are basically a group—clauses 137, 138 and 151. Also, we have to deal with clause 91 and, of course, clause 1 has been stood in a formal way, and a series of schedules which are linked with clause 88. We will resume this afternoon at 3.45 to continue our progress.

Mr. MONTEITH: Mr. Chairman, may I bring up a little matter of procedure? Clause 91, to me, is probably the nub of the Bank Act. I think everything else has been adjusted very nearly to the satisfaction of the Committee. Would it be possible to get the evidence of the Minister yesterday and today, having to do with clause 91, and have it photographed? We still have some work to do and if we do clean up everything else this afternoon, I would be glad to see the Committee go into camera tonight as a prelude to final disposition of the bill. But I wondered whether that evidence could be avaliable for consideration over the weekend, even if we have to come down to one clause, namely, clause 91, left to deal with at the first of the week?

The CHAIRMAN: Certainly, the Clerk will attempt to get the evidence transcribed but I would point out to the Committee—and in this I am in the hands of the Committee—that the Clerk informed me earlier today it will take approximately one week from whenever we finish our consideration of this legislation before it can be reported to the House. There are all sorts of matters involving preparing the report which are apparently quite technical. I ask the members to bear this in mind. It is not something we can finish tonight and report tomorrow. Apparently this legislation is so complex that it will take a week to put it in shape to report it to the House.

This means that even though the government and the other parties may not wish to hold to the suggested March 10th prorogation date, we still do not have a very lenthy period before Easter, which is about the 25th of March, with the present legislation expiring, for better or for worse, on April 1st. I am wondering whether perhaps we should not attempt and again, I am in the hands of the Committee to complete our consideration this week because of the time schedule we are labouring under.

Mr. MONTEITH: Mr. Chairman, I have to reiterate what I said earlier, that this is the nub of the whole thing and I would like very much to study the Minister's evidence, regarding clause 91 only, when he was here yesterday afternoon, and what was said this morning.

(*Translation*)

Mr. CLERMONT: I think Mr. Monteith and the other members were here when the Minister made his observations yesterday and today and I think we should therefore be able to discuss clause 91 this afternoon or this evening, and if possible, complete consideration of this today so that we could finish with the bill. If we put if off from day to day, we will never get finished with it. It seems to me the Committee has been obliging enough to accommodate members who

could not come, by standing clauses, but I think that the others, who have been attending regularly should get some consideration.

(*English*)

The CHAIRMAN: Well, we have had an exchange of views on this. We will resume this afternoon and see how we are getting along.

We will recess until 3.45 this afternoon.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I think we can call our meeting to order. Now, over the luncheon period, Mr. Ryan of the Department of Justice, I see was hard at work. He prepared an amendment, or a text from an amendment, which reflected what Mr. More was saying in the other discussion. Perhaps we could ask Mr. Ryan and Mr. Elderkin to review this with us. The document is headed "22 February 1967, Clause 91 (Revised)". We will see whether it is in accord with our discussions of this morning.

On Clause 91—*Powers re interest.*

Mr. ELDERKIN: As you notice, the particular sections are numbered (a), (b), (c) and (d). The first amendment (a) is the present clause 91 (3) with a change in the operating period. In other words, for the period commencing with the coming into force in this act and ending on the 31st day December, 1967; that is, for the balance of this year, the maximum rate will be 7¼ per cent. It is spelled out in here 7¼ per cent to make it easier drafting, but 7¼ per cent would be in effect at the present time, but this makes it a much simpler drafting operation. And then for any part of any interest period commencing on and after the first of January 1968, it goes on as it is in the present case, namely one and three-quarters per cent over the short term rate.

And (b) is the same as an amendment which has already been before you, namely, the purpose of the amendment is to bring in all fixed term loans and discounts instead of, as before, only discounts were mentioned.

(c) is also a repetition of an amendment which was before you, and is the same as it appears in some other clauses, where it refers to an equity of redemption, which as you realise in some provinces is similar to a second mortgage, in effect.

Mr. MORE (*Regina City*): That answers Mr. Fulton and Mr. Lambert?

Mr. ELDERKIN: That is right. Now, when you come to (d) it is what one might call the trigger clause. This drafting was, I believe, along the lines that was suggested this morning. The trigger would work, in other words, if at any time between now and the end of the current year the rate dropped to less than 5 per cent, instead of 4½ per cent as it is in there. The sections would expire, but only after the 31st day of December, 1967. In other words, the rate follows through. Then after that—on the 15th day of the month next following the last month of such period—this is a repetition of what is in there at the present time. The effect of this is, in other words, that if the 5 per cent trigger was adopted, and it occurred any time during the current calendar year, then the rate of 7¼

would stay on until December 31st, but would come off automatically on the 15th of January. That, I think, is briefly what the amendment reads, along with amendments which were put before you for other purposes.

The CHAIRMAN: Are there any questions or discussion with respect to the foregoing?

Mr. ELDERKIN: I am sorry; I beg your pardon. I think I made a mistake which Mr. Ryan has pointed out. If the trigger worked before the 31st day of December 1967, it would come off as of the 31st day of December 1967. If it occurs on the 31st day of December 1967, it comes off on the 15th of January.

Mr. MORE (*Regina City*): Does the $7\frac{1}{4}$ operate until the 31st—

Mr. ELDERKIN: The $7\frac{1}{4}$ operates under all circumstances until the 31st day of December, 1967.

Mr. MONTEITH: In general terms, this would appear to have the effect of removing the ceiling entirely somewhat earlier than might otherwise have happened.

Mr. ELDERKIN: Yes; the difference between $4\frac{1}{2}$ and 5 per cent, if that is adopted.

Mr. SHARP: Well, this is not quite right, Mr. Chairman. I think what—

Mr. MONTEITH: After the 31st of December, 1967.

Mr. SHARP: Yes; it is possible that if we did not change the bill at all that the ceiling would come off before the 31st of December, 1967. That is a possibility, but once you have got to December 31, the likelihood of it coming off from then on is increased by having raised the trigger point to 5 per cent.

Mr. MORE (*Regina City*): But, we have a period of stability until the end of the year.

The CHAIRMAN: Is there any further discussion?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The critical three month period of the calculation is, in effect, the first three months of 1967. Why is the critical period not the last three months of 1967? Suppose, as you say, the trigger sets off in the first three months of 1967, then in the intervening months, it comes up again, it is still off, is it?

Mr. ELDERKIN: It is off; that is right.

Mr. SHARP: That is how it would operate other than—

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes, I know.

Mr. SHARP: Now, this is the question the Committee has to decide, whether they prefer to have that period of stability for a year, or whether they prefer just to let the present proposals operate. And, as I said earlier, Mr. Chairman, this is a question of judgment. When we originally made these proposals, interest rates were not rising and there was a great deal of apprehension about the possibilities that the rate might come off in the middle of a very rapidly rising interest rate period. Interest rates now show signs of declining, and have come down considerably, and we are now considering the problem in a rather different setting. If we allow the present law to operate, there could be some

unnecessary changes in the ceiling. At least, they are unnecessary in the sense that they do not serve any particular purpose. And, as I say, I think this is a question of judgment, I do not look upon this as representing any change in the general spirit of the act, and if the Committee felt its judgment was this way, I would not oppose it or if they decided that they wanted to retain the present provisions, I would understand that, too.

The CHAIRMAN: Are there any further questions or comments? First I will have to ask Mr. More whether he will be willing to have this wording substituted for his motion of this morning.

Mr. MORE (*Regina City*): Yes, I would. I think it serves the purpose I had in mind.

The CHAIRMAN: Yes. I presume you are speaking for Mr. Lambert, and Mr. Flemming will be willing to have his name stand as seconder in his place since he, I gather, is at the Defence Committee. The amendments covered by the document that I have referred to at the opening of the meeting is before us now, and if there is no further discussion, I would ask if the amendments in question carry.

Mr. MORE (*Regina City*): I move that Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out lines 36 to 39, inclusive, on page 74 thereof and by substituting therefor the following:

"(a) for the period commencing on the coming into force of this Act and ending on the 31st day of December, 1967, seven and one-quarter per cent; and

(b) for any part of an interest period commencing on or after the first day of January, 1968, one";

(b) by striking out subclause (4) of clause 91 on page 75 thereof and by substituting therefor the following:

Interest and discount charges.

"(4) Where a loan or advance referred to in subsection (2) is made for a fixed term by the bank in one interest period and is repayable in whole or in part in a later interest period, the maximum rate of interest or rate of discount that the bank may charge on the loan or advance is that prescribed by subsection (3) for the interest period in which the loan or advance is made notwithstanding the maximum rate of interest or rate of discount prescribed for later interest periods.";

(c) by striking out lines 22 to 24, inclusive, on page 75 thereof and by substituting therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof,";

(d) by striking out lines 12 to 18, inclusive, on page 76 thereof and by substituting therefor the following:

"period of three months ending after the 31st day of December, 1966, is less than five per cent, subsections (2) to (8) of this section, subsection (1) of section 93, section 112 and subsection (1) of section 151 expire

(a) on the 31st day of December, 1967, if the last month of such period ends before the 31st day of December, 1967, or

(b) on the fifteenth day of the month next following the last month of such period, if such period ends on or after the 31st day of December, 1967,

but without affecting any loan or advance made for a fixed term in respect of which a rate of interest or rate of discount has been charged before that day,"; and

(e) by striking out line 20 on page 76 thereof and by substituting therefor the following:

"(8) of this section and subsection (1) of section 93 expire shall be given by proclamation of"

Mr. FLEMMING: I second the motion.

Amendment agreed to.

The CHAIRMAN: Is Clause 91, as amended, agreed to?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No, I vote against this amendment.

The CHAIRMAN: Is it on division, or do you want yourself recorded.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Oh, I will be recorded.

The CHAIRMAN: All right. Next, we revert back to Clauses 88, 89 and 90.

I did say Clause 91 as amended carried?

Mr. MORE (*Regina City*): No, you have not said that.

The CHAIRMAN: Oh, I did not. I am sorry, my apologies.

Mr. MORE (*Regina City*): I think Mr. Cameron interrupted on this amendment.

The CHAIRMAN: Oh, yes. I see. All right. Thank you for drawing this to my attention. Now, I ask if Clause 91 as amended carries?

Mr. MONTEITH: I made a request before lunch. If the Committee does not see fit to accede to that request, I will have to vote against it. I would like to point out that we still have some work to do on this, and that there is a possibility we will not finish today even without this clause. I would like to suggest that the matter rest for the time being and we go on and clean up some of the other clauses.

The CHAIRMAN: Well, it is up to the Committee. I will just report to the Committee, I checked with the Clerk about the possibility of having the transcript of yesterdays'—

Mr. MONTEITH: Well, now look. Let us not be nonsensical. This Committee has been going on for days and days, weeks and months, and we have had 80 odd meetings on this particular bill. I certainly cannot see any harm in letting this rest over the week end, as I have requested. I mentioned that I would like to peruse the Minister's evidence, and Miss Ballantine has informed me that it is possible she may have one copy available by tomorrow afternoon. I would like to give the whole thing some further thought. I think you are going to rush

things a bit, Mr. Chairman, if you push it through at this stage. I know there is a presumed deadline of the 10th of March, but I am not trying to wreck that dealdline or anything of the sort. But I do ask this week end to consider this clause; as amended.

The CHAIRMAN: Well, it is up to the Committee whether we want you to proceed with this now or let it stand until Monday.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Monteith has had plenty of time to consider it the way the rest of us have. I do not understand. I must say, I take some exception to your suggestion that the Chairman is being nonsensical. I think he was just putting a very plain question to the Committee. I would remind Mr. Monteith that we have stood many sections at the request of himself and his colleagues who have not found it convenient to be here. We have had to hold them over, and those of us who have faithfully attended each Committee have had to wait. Frankly, I am not prepared to wait any more.

Mr. MONTEITH: Well, I have expressed my opinion, Mr. Chairman.

Mr. LEBOE: Well, I was wondering if I could ask Mr. Monteith this question. Would it not be possible to make any move that you wanted to make in case something came up—and it is a hypothetical question—when the bill comes before the house.

Mr. MONTEITH: That is always possible, certainly. I just stated my position, that is all. Actually, my ideas are in the hands of the Committee.

Mr. LEBOE: I was thinking this might be a compromise.

The CHAIRMAN: Well, there will be the Committee of the whole stage in the house, and I am sure that the Minister would be willing to consider any views that would develop at that time, after further study and consideration of what we report to it. But, I think the procedure is this, unless the Committee, following the practice in the House, unanimously agrees to have a clause stand, then I am advised to call for a vote if there is no further discussion.

Mr. SHARP: May I ask Mr. Monteith, if he has any questions he would like to put to me. I can understand—

Mr. MONTEITH: No, I simply mentioned that I would like to review your evidence of yesterday, as it reflects on Clause 91, and it is a very important subject, and quite an intricate one. That is my position.

Mr. CLERMONT: I will support the remarks of Mr. Cameron. It is up to the Committee, so if we have to vote, we will vote on that question. If the majority is to stand the clause until next week, all right, if not—

Mr. SHARP: Well, if I may say so, Mr. Chairman, my only concern about Mr. Monteith's position is that Mr. Monteith said he has to vote against the clause unless he gets a chance to look at the evidence. It would be a pity to have—

Mr. CLERMONT: Would that mean, Mr. Minister that we will vote for it on Monday?

Mr. SHARP: No, no.

The CHAIRMAN: Well, perhaps you can assess this, Mr. Sharp. Can you give us some information about house business, and so on? You are closer to the house leader in these matters than those of us who sit below the salt are.

Mr. SHARP: Yes; well I agree with what you said this morning, Mr. Chairman, that time is running out. But I would not want to say that this matter should not be stood for a few hours if Mr. Monteith values my views so highly that he would like to have a look at them again. I can understand this; I can sympathise with his point of view.

The CHAIRMAN: I, like Mr. Flemming, have a compromise suggestion. It is obvious we will be meeting this evening anyway. Let us agree to stand the clause until this evening's sitting and we will see where we stand then.

Mr. CLERMONT: Mr. Chairman, Mr. Monteith will not have those papers tonight; they have been promised to him for tomorrow afternoon, so what is the use of waiting.

The CHAIRMAN: Well, there is this aspect. I am not saying the Committee will want to stand if further, but if we stand it until tonight, over the supper hour, if we adjourn earlier, perhaps Mr. Sharp will be able to get over the same points even without the transcript. I do not know.

Mr. SHARP: I always tell the truth so I do not have to remember what I say.

The CHAIRMAN: Perhaps we can have an interim compromise, and stand this clause until this evening. It is obvious we will be meeting this evening, and perhaps there will be a reassessment of positions, and then if at that time there has been no change in position, we will follow the rules. Why do we not try that?

Mr. CLERMONT: There is one thing you have to keep in mind, too. Suppose we finish the bill this afternoon and we sit tonight in camera for other matters. You have to keep in mind that if we sit in camera we do not need as many personnel as we do for public sittings.

The CHAIRMAN: Do you mean as far as the quorum is concerned?

Mr. CLERMONT: I mean, if we are through with the bill this afternoon, some of the personnel will not be required tonight. If we keep that outstanding for tonight—we either settle it this afternoon or postpone it until next week. I do not see the advantage sitting tonight.

The CHAIRMAN: What personnel are you referring to?

Mr. CLERMONT: Well the lady in the corner will not be obliged to come tonight if we sit in camera.

The CHAIRMAN: Oh, I think we will still need the interpreter. I think we will still need the simultaneous translation.

Mr. CLERMONT: That was what I was told if there was no sitting tonight—maybe the information was not too accurate.

The CHAIRMAN: I think we will still need somebody to operate the electronic equipment.

Mr. CLERMONT: Personally, I do not see any advantage in postponing it to tonight. It is either that we settle it this afternoon or postpone it to next week.

The CHAIRMAN: Well, perhaps you would be willing to see what happens this evening. Events may prove you 100 per cent correct and then you will be a prophet with honour.

Mr. CLERMONT: Well, I express my opinion; I am not responsible for the others.

Mr. FLEMMING: I would like to inquire concerning the urgency of our attention to and our finalization of these matters as soon as we can secure the consent of all the members. I presume that the urgency has to do with the expiration date of the legislation itself, and which the Minister is concerned about, of course.

Mr. SHARP: Well, I was concerned, Mr. Chairman, about what you said this morning that you were advised it would take a week for the report to be prepared.

The CHAIRMAN: The clerk has again confirmed that. If there is any way to speed that up, I am sure we will want to assist her.

Mr. FLEMMING: Mr. Chairman, I did not raise the question to object to your comment.

The CHAIRMAN: No, I realize that.

Mr. FLEMMING: I am all for it, and probably Mr. Monteith might think about it and secure some information. In any event, it is sure not going to be harmed by a few hours.

The CHAIRMAN: Yes.

Mr. FLEMMING: Until tonight.

The CHAIRMAN: Well, perhaps we could, in light of what you said, Mr. Flemming, revert to—

Mr. MORE (*Regina City*): We carried the amendment but not the amended clause?

The CHAIRMAN: That is right. That is where we stand at the moment. Perhaps we can revert to our consideration of clauses 88, 89 and 90. Now, there has been a further draft of clause 88(5) and this clause was the subject of most of our discussion this morning. I will ask the clerk to distribute these. Mr. Sharp, I believe you wish to make some comments on this further draft of clause 88(5).

On Clause 88—*Loans to certain borrowers* and *security.*

Moved by Mr. Clermont and seconded by Mr. Comtois, that clause 88(5) of Bill C-222, an act respecting banks and banking, be amended:

(a) by striking out lines 35 to 40 on page 69 thereof and substituting therefor the following:

"(5) Notwithstanding subsection (2) and notwithstanding that a notice of intention by a person giving security upon property under this section has been registered pursuant to this section, where, under the *Bankruptcy Act,* a receiving order is made against, or an assignment is made by, such person,"; and

(b) by striking out paragraph (b) of subclause (5) of clause 88 thereof and substituting therefor the following:

"(b) claims of

(i) a grower of perishable products of agriculture that are direct products of the soil for money owing by a manufacturer to

to grower for such products that were grown by him on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment, or

(ii) a producer of dairy products for money owing by a manufacturer to the producer for such products that were produced on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment,

to the extent of seven thousand five hundred dollars of the amount of the claims of the grower or producer therefor, or the total of his claims therefor if such amount is seven thousand five hundred dollars or less;"

Mr. SHARP: Mr. Chairman, following the discussion today I had some words with Mr. Elderkin about the possibilities of making amendments in response to suggestions made by members of the Committee, particularly Mr. Clermont and Mr. Cameron. I confirmed my own view that I think it would be unwise to include all agricultural products rather than just dairy products—there is an extension of the list that is already there—but I do believe that it would help to meet what seems to be legitimate concern if we extended the period in clause 88(5)(b)(i) and (ii) from three months to six months and if the maximum amount is increased from $5,000 to $7,500. I thought I might put these forward for consideration, and Mr. Elderkin has drafted them in the form of draft amendments.

The CHAIRMAN: Now, this reflects the points raised in the Committee yesterday, particularly by Mr. Clermont and Mr. Comtois, I gather.

Mr. CLERMONT: And Mr. Cameron as well.

The CHAIRMAN: Yes, Mr. Cameron as well and other members. Perhaps we should see if there is any further discussion or comment. The change, I gather, as Mr. Sharp has said, is that the period within which delivery is to be made to take advantage of the special sections has been increased from three to six months and the maximum amount of claim has been increased by some 50 per cent actually from $5,000 to $7,500.

Mr. FLEMMING: That is a pretty good percentage. If you could get that all the way through you would be all right.

The CHAIRMAN: Recalling previous testimony, it would appear that this concept is rather a novel approach to clause 88. I say that in a positive sense. Now, are there any further questions or comments about the latest draft of the amendment to 88(5).

Mr. CLERMONT: Mr. Chairman, there is no doubt that I may be inclined to agree with Mr. Monteith that 88 should stand until Monday and maybe we will get more.

Mr. SHARP: Mr. Chairman, my concern was that if we stood the other one we might get less.

Mr. CLERMONT: Personally, I would agree that over the original bill C-222, the last amendment is fair improvement.

The CHAIRMAN: It shows the value of Committee consideration and it also reflects sustained effort by our colleague, Eugene Whelan, beginning I think in 1963. In any event, if there is no further discussion or comment, I would ask if the amendment to clause 88(5) before us now carries?

Some hon. MEMBERS: Carried.

Amendment agreed to.

The CHAIRMAN: Are there any other amendments to clause 88? I would ask if clause 88 as amended carries?

Some hon. MEMBERS: Carried.

Clause 88, as amended, agreed to.

The CHAIRMAN: I would ask if clause 89 carries?

Some hon. MEMBERS: Carried.

Clause 89 agreed to.

The CHAIRMAN: I would ask if clause 90 carries?

Some hon. MEMBERS: Carried.

Clause 90 agreed to.

The CHAIRMAN: Now, I think we should revert to clause 76. You will recall we had a redrafted amendment to it and a question was raised for consideration. I do not know the best way to approach this. We have to dispose of the clause somehow, some time. We will let the officials think about the answer while we are looking for the most recent version of the amendment.

Mr. MONTEITH: That was in the list as No. 3, was it not?

The CHAIRMAN: As No. 3, yes. The one for February 22, clause 76 revised.

On clause 76—*Ownership of corporate stock.*

Moved by Mr. Clermont, seconded by Mr. Comtois:

That Bill C-222, An Act respecting Banks and Banking, be amended

(a) by striking out lines 41 to 49, inclusive, on page 53 thereof and by substituting therefor the following:

of corporate Ownership stock.

"76. (1) Except as provided in this section, the bank shall not own shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than fifty per cent of the total votes that could, under the voting rights attached to all shares of the corporation issued and outstanding, be voted by the holders thereof, in any case where the total amount paid or agreed to be paid by the bank for such of the

shares of the corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the";

(b) by striking out lines 3 to 16, inclusive, on page 54 thereof and by substituting therefor the following:

Shares of foreign corporation.

"(2) Except as provided in this section, the bank shall not own shares of the capital stock of a foreign corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the foreign corporation issued and outstanding, be voted by the holders thereof, if the foreign corporation owns shares of the capital stock of

(a) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than fifty per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof, in any case where the total amount paid or agreed to be paid by the foreign corporation and the bank for such of the shares of the Canadian corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would under the voting rights attached to the shares

owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the bank at the coming into force of this Act, shall be sold or disposed of before the first day of July, 1971.";

(c) by adding after subclause (3) of clause 76 on page 54 thereof the following new subclause (4);

Exception.

"(4). The bank may own shares in excess of the maximum number prescribed by this section, if the shares are acquired through a realization of security for any loan or advance made by the bank or any debt or liability to the bank, but any such shares acquired after the coming into force of this Act shall be sold or disposed of by the bank within a period of five years from the day on which they were acquired.";

(d) by striking out subclause (6) of clause 76 on page 54 thereof and by renumbering the present subclauses (4) and (5) on page 54 thereof as subclauses (5) and (6), respectively; and

(e) by striking out line 32 on page 55 thereof and by substituting therefor the following:

"province;

"Foreign corporation."

(c) "foreign corporation" means a corporation incorporated outside Canada; and

"Trust or loan corporation."

(d) "trust or loan corporation" means a Canadian corporation that carries on the business of a trust company within the meaning of the *Trust Companies Act* or the business of a loan company within the meaning of the *Loan Companies Act* and that accepts deposits from the public."

Mr. ELDERKIN: Mr. Chairman, we ran into some difficulties on this one as it stands, as noted by the Committee. There is no difficulty, of course, as far as the

provision which permits the holding of voting stock in another corporation, whether it is a trust or loan company or any other Canadian corporation. We added a new provision in which the bank might invest in another corporation, other than a trust or loan corporation, to the extent of $5 million if that investment did not exceed 50 per cent of the voting shares. Now, the problem that arises here is, when you get into this, what happens in this particular corporation in which the bank has invested unless you make some provision to the contrary, the bank could hold shares in a trust or loan company and it might, to take an outside view on it, hold 100 per cent of the shares in a trust or loan corporation. Indirectly, if this provision goes without amendment the bank would, under this particular paragraph, very effectively own 50 per cent of a trust and loan corporation. Now, you can say that the bank cannot invest in 50 per cent of a company that owns stock of a trust and loan corporation, but then, as Mr. Ryan stated, you could follow this down for company after company after company and you would never get to the end, or when you do get to the end they may have a trust or loan corporation.

An hon. MEMBER: Why does the bank not do that?

Mr. ELDERKIN: I think this is the difficulty. There is no doubt about the intent, probably of the clause the difficulty arises in just the fact that through a series of holding companies, if the bank wanted to go to the trouble to do it, under this provision you could end up with a 50 per cent interest in a trust and loan corporation.

About the only way that perhaps you can shut the door on this entirely is to cut it off in effect right at the start and say they cannot hold sufficient shares in another corporation—in a holding corporation. It is a very difficult thing to overcome, and it is a very difficult thing to overcome by drafting of legislation at all as long as you have this provision in here which we have sort of accepted, that the bank may own 50 per cent of a subsidiary corporation or another corporation providing it does not exceed $5 million of investment. Mr. Ryan and I have given a great deal of thought to it as to how anything could be drafted, but as I pointed out, and he has pointed out to me the thing could go down through so many stages that you could not track it down, or at least you could not control it. I do not think it is good drafting to express an intent in the act; I think it would be a very unfortunate thing if every investment the bank made under this provision would have to be referred for approval by the Governor in Council or the minister. This is the sort of discretion that you do not like to put in, or at least, I shall put it another way, that the Governor in Council does not like to have.

Mr. SHARP: Thank you.

Mr. ELDERKIN: This is really our problem. I am not suggesting that a bank would take advantage of this particular provision, but I do want to point out to the Committee that the possibility is there. All we could do under the circumstances, unless some change is made, would be to in effect express opinion that this is not the type of thing we want done.

Mr. FLEMMING: These opinions do not always carry any weight.

Mr. LEBOE: Well, Mr. Chairman I imagine that the brain trust has really gone over this with a fine tooth comb and anything we might offer may be of no

value, but I was wondering if something could be put in there which would just indicate that the end result would not be the control; the end result of any purchase of shares in any company would not result in the control of a trust and loan company. I imagine you have gone over this—

Mr. RYAN: Mr. Chairman, the difficulty in this clause, at the very outset, is that we are not talking here in terms of control, we are talking here in terms of the ownership of shares, so that directly or indirectly owning shares will not help us in this situation. We have to look at the control, the indirect control down the line of ownership. In order to do that we have to provide, in one instance the type of provisions you have in clauses 52 and 56 where you are considering controlled subsidiary companies. Of course, I must speak now as a draftsman. The draftsman is in a dilemma in this case, in the absence of clear policy instructions, because if a direction is given, for instance, to prepare a draft that would prevent that control, it may be necessary to recast the whole of 76 to do that or to come up with another provision. In the terms of clause 76 I would not be able to do it successfully so that you could not find some holding company down the line, one step beyond those which you have provided for here through ownership, that could defeat the whole purpose of the section. If there were clear instructins on policy, then I would be in a better position to see what I could do. In this instance only, I cannot do anything very much with this section.

There are a number of alternatives. The control could be a general control over the purchase of shares by a bank. This could be a commission, Inspector General, Governor in Council or minister. This would be a discretionary control. Another way of doing it would be to cut off ownership in a holding company. We would have to define holding company then, perhaps in terms of the Canada Corporations Act. This would perhaps create trouble in other areas because we do not know the extent of holdings in holding companies. If there were, as was suggested, instructions to prevent any indirect control of a trust company, then I would like to take it away and look at it to see what I could come up with from that point of view. However, there is a difference between owning shares and controlling companies ultimately through the ownership of shares.

Mr. ELDERKIN: The point which the Minister just raised too was to the effect that it could, if not changed, actually some place down the line acquire shares of another bank.

The CHAIRMAN: Well, what shall we do about this?

Mr. MORE (*Regina City*): Well, the intent of the clause is not always the law that is applied if there is any question about it. It is often a game to defeat the intent, if the loophole is there.

Mr. LEBOE: Mr. Elderkin, is there any other section that we have actually passed where the effect could be brought in? Is there any other section of the act where the desired effect could be brought in where it would control—

Mr. ELDERKIN: No, there is not, Mr. Leboe.

(*Translation*)

The CHAIRMAN: Mr. Clermont?

Mr. CLERMONT: Would there be any way, Mr. Chairman, to adopt Clause 76 with some amendments and if, in the meantime, improvements are brought in one way or the other, they could be submitted to the House?

The CHAIRMAN: An amendment?

Mr. CLERMONT: Could that be possible? Because if we base ourselves on other bills which came into the House after consideration in Committee, there were amendments brought in the House, for instance, the Transportation Bill.

The CHAIRMAN: After the Committee had considered it.

(*English*)

Mr. SHARP: Mr. Chairman, I was looking through the Porter Commission to see how they dealt with this matter in their recommendations. Probably they did not face up to this difficulty either, because as I recall it their recommendation was that they might have $10 million rather than $5 million which must have increased the dangers of this happening. I just wanted to see whether by any chance they recognized the possibilities of avoiding the intent.

Mr. LEBOE: We could refer to the Minister of National Revenue. I think he has all sorts of little gadgets for arm's length decisions. Has he not?

It is in the income tax.

The CHAIRMAN: It is the custom to complain about them, too.

Mr. LEBOE: Yes.

Mr. MORE (*Regina City*): Can you put in a clause in this section that says the intent of this bill is to prevent so and so, and if it is found that the intent has not been carried out, the Minister or the Governor in Council may require them to divest themselves of these shares. Can you do it that way? I am not a lawyer; I do not know. It is rather a negative approach perhaps, but it might be the simplest to say that if you discover that the intent of the section has been overridden through investment in a holding company, the Minister or Governor in Council may require the divesting of the shares.

Mr. LEBOE: Maybe the threat which exists of holding up the Bank Act might be a deterrent.

Mr. RYAN: I will have to look over here and see what these fellows look like.

The CHAIRMAN: We will just allow these consultations of the Minister's officials to continue.

Perhaps I can make a suggestion. We could stand this clause until this evening's sitting.

Mr. MORE (*Regina City*): Not until tomorrow or Monday.

The CHAIRMAN: Perhaps we can move on to clause 137. I believe this clause was stood at the request of your group, Mr. Monteith. It may have been just with respect to the size of the penalty; I do not know.

On Clause 137—*Statements not signed as required.*

Mr. MONTEITH: I think that was it, yes. It is just a query whether it is sufficient or not.

Mr. ELDERKIN: Well, on the annual statement—this is a matter of opinion for the Committee, as far as that is concerned—it is a fairly small penalty that is provided. It is something that has never occurred in the past that we have had any difficulty with one way or another, but it is up to the Committee whether it should be increased or not.

Mr. MONTEITH: Well, I am not going to raise an issue. I was just making the query as to whether or not it should be—

Mr. ELDERKIN: We have never had the least bit of trouble with it.

The CHAIRMAN: If there is nothing further on clause 137 I will ask whether it carries?

Some hon. MEMBERS: Carried.

Clause agreed to.

The CHAIRMAN: Shall we move on to clause 138?

On Clause 138—*Agreements fixing interest.*

Mr. MORE (*Regina City*): The same thing applies there. Was it not a matter of the penalty?

Mr. ELDERKIN: No, there were other points raised there, Mr. More. This was the one on which—

The CHAIRMAN: Mr. Macdonald asked—

Mr. ELDERKIN: Oh, yes, yes. That is right. Mr. Macdonald raised a few questions with respect to a few sections of the Combines Investigation Act.

Mr. MORE (*Regina City*): That is right.

The CHAIRMAN: So we can have some discussion on this, perhaps you may have some comments, Mr. Elderkin, on the powers you have now as contrasted with those referred to by Mr. Macdonald this morning in the Combines Investigation Act.

Mr. ELDERKIN: He mentioned one which was covered, and I have not had a chance to look at it to see whether it is or not. Under the powers that the Inspector General of Banks has he may take possession of any books, documents, records, et cetera, of a bank; he has the power to take evidence under oath from any person connected with a bank. I am not quite clear—well, I just do not know which section in the Combines Investigation Act Mr. Macdonald felt might be a further necessity. The other point that Mr. Macdonald raised was the matter of whether there should be a penalty here or whether it should be made a criminal offence, for violation.

The CHAIRMAN: Well, it is a criminal offence. It is a question of whether there should be a maximum or minimum penalty.

Mr. ELDERKIN: Yes, I think that was it. As far as taking evidence is concerned, clause 65(4) reads:

> The Inspector has all the powers conferred upon a commissioner appointed under Part II of the Inquiries Act for the purpose of obtaining evidence under oath,—

So I think as far as obtaining evidence is concerned, the Inspector General of Banks has as much power as is required. If that is the case, I am not sure, other than the question of the penalty, what else is necessary to make the section as tight as you can make it.

Mr. More (*Regina City*): He quoted clauses 31 (a) and 41 (a). Those are the sections he referred to.

Mr. Elderkin: Yes. I really have not had a chance to look at the Combines Investigation Act to see what they are, and I do not know—

An hon. Member: His original suggestion was that they should have an inspection by the combines branch.

The Chairman: I think he dropped that later. I think he was suggesting a few corrections in the Combines Investigation Act incorporated by reference into this act so the powers would be available to the Inspector General if they appeared to be of assistance in any investigation or prosecution under this clause.

Mr. Elderkin: I do not know and I cannot comment on that. I do not know what more powers are needed. In any case, the Attorney General can take action against any violation of the act.

The Chairman: I think what Mr. Macdonald had in mind is that there are certain things in the Combines Investigation Act—and perhaps Mr. Ryan may be able to inform us—providing that if the documents have certain evidentiary value the onus with respect to what they stand for is somewhat different from the ordinary criminal prosecution. I know it is unfair to you perhaps, Mr. Ryan, to ask you to cover so many fields of law as we skip about in our consideration, but without having the details with us, do you recall—

Mr. Ryan: Mr. Chairman, one of the statutes that I am most shy about is the Combines Investigation Act. I have very little knowledge of it.

Mr. Clermont: That was the question I wanted to put through, Mr. Chairman. I wanted to know Mr. Ryan's comments on the suggestion made by Mr. Macdonald this morning as Mr. Ryan was here.

Mr. Ryan: I had no opportunity, Mr. Chairman, to consider these suggestions; there was another matter that we were dealing with over the lunch period.

The Chairman: Has any consideration been given to Mr. Macdonald's point about penalty.

Mr. Elderkin: That was a matter for the committee. Mr. Ryan could perhaps suggest a change in the wording, if necessary, if you want to drop the penalty out of it. Every other offence under the act has a stated penalty.

The Chairman: What would be involved in having a minimum penalty, but no maximum, Mr. Ryan, as a drafting proposition. I just raise this point for discussion.

Mr. Ryan: I would like to draw your attention, Mr. Chairman, to clause 160 of the bill. You could, if you wished, use the language for offences, on summary conviction, or on indictment, and then you could use a maximum or minimum. But expressed as a penalty, clause 160 would apply and the action is at the suit of the Attorney General of Canada.

Mr. More (*Regina City*): In dealing with banks, can I ask what circumstances would permit the waiver of the penalty?

Mr. Elderkin: Permit which, Mr. More?

Mr. More (*Regina City*): The waiving of the penalty?

Mr. Elderkin: Sometimes we have possibilities where in the past, I can think of once where a bank actually took a mortgage without realizing that legally a mistake was made in the operation. They could actually be penalized for this, but it was waived. You get several cases, Mr. More, where there is a penalty for making a late return to the Minister and we have had perhaps a dozen cases in a dozen years where, because there were not sufficient signing officers around at the date when the return was ready, it would not be submitted. So they submitted late returns, but asked for a waiver of the penalty in this matter. There has never been a serious case, shall we put it that way; it has been all a question of technical errors or cases where they could not help incurring the penalty. It was not something they did deliberately.

The Acting Chairman (*Mr. Clermont*): Are there any other comments on it? The Chairman has gone to get the Combines Investigation Act.

Mr. More (*Regina City*): Mr. Ryan is not going to escape. If I understood Mr. Macdonald's representation, it was not a 50 per cent increase, but possibly a 500 per cent increase—

Mr. Elderkin: I think Mr. Macdonald said that it should be left to the courts, as to what the penalty should be, rather than state it in the act. I think that was his main point; that it should be left to the courts.

The Acting Chairman (*Mr. Clermont*): Is the Committee willing to do to clause 151 for the time being?

Mr. Lind: Mr. Chairman, in any case clause 160(2) gives the Minister the power to waive any of the penalty of clause 138, does it not.

The Acting Chairman (*Mr. Clermont*): You mean 160 subclause (2).

Mr. Lind: Yes; the waiver privilege; the Minister can waive it.

Mr. More (*Regina City*): Could he waive the penalty imposed by the court?

Mr. Elderkin: No; it is the penalty under the act.

Mr. More (*Regina City*): That is just the difference. Mr. Macdonald's proposal is that the courts decide the penalty, and the act provides the penalty here at the discretion of the Governor in Council, I take it. Do we want to maintain that or remove it. Is that not the question that we face? The Minister can discipline them under the act, but if you do it the other way, it would require the courts to impose the discipline.

Mr. Sharp: Mr. Chairman, as Mr. Elderkin points out there can be cases where simple mistakes are made, where it would certainly be in order for the Minister to waive. I have never had to exercise that authority.

Mr. More (*Regina City*): You would not waive the penalty; you would waive prosecution if the other procedure was adopted then. You would not prosecute. That would be the circumstance there?

Mr. SHARP: That is right.

The ACTING CHAIRMAN (*Mr. Clermont*): Gentlemen, is the committee willing to revert to clause 76(6).

Mr. ELDERKIN: You suggested, Mr. Chairman, that we might look at clause 151 and clause 151 refers to clause 91, which is passed, so it was held open for that reason. Oh, no, I am sorry.

The ACTING CHAIRMAN (*Mr. Clermont*): The amendment was carried, but not the clause.

Mr. MORE (*Regina City*): The clause is not carried.

The ACTING CHAIRMAN (*Mr. Clermont*): Is there any schedule Mr. Elderkin that will tie up with either Clause 91, Clause 38 or clause 151?

Mr. ELDERKIN: That is right, clause 151 is tied up with both clauses 91 and 92.

Mr. MORE (*Regina City*): The schedules are on clause 88, are they not.

The ACTING CHAIRMAN (*Mr. Clermont*): Are any of the schedules tied up with Clause 88?

Mr. ELDERKIN: Yes, all the ones that are stood are tied up with Clause 88.

The ACTING CHAIRMAN (*Mr. Clermont*): We passed Clause 88.

Mr. ELDERKIN: No, we have not passed Clause 88 yet. Oh, yes, I beg your pardon.

The ACTING CHAIRMAN (*Mr. Clermont*): Do you like our company?

Mr. ELDERKIN: For a while, Mr. Chairman, for a while. Yes, we could pass the schedules, Mr. Chairman.

The ACTING CHAIRMAN (*Mr. Clermont*): I do not mind going over them once or twice, but no more. The following schedules were stood: Schedules C, D, E, F, G, I, H, J, K, L; all these schedules, Mr. Elderkin, were tied up with clause 88.

Mr. MORE (*Regina City*): Do we require any new schedules as a result of the amendment?

Mr. ELDERKIN: No.

Mr. LIND: Schedule A was also stood, was it not?

The ACTING CHAIRMAN (*Mr. Clermont*): Schedule A carried.

Mr. ELDERKIN: Thank you, Mr. Chairman.

The CHAIRMAN: Thank you Mr. Clermont. They are all tied in with clause 88?

Mr. ELDERKIN: That is right.

The CHAIRMAN: I shall call each one.

Mr. ELDERKIN: One is tied in with clause 82, but 82 is passed as well.

Schedules C to L, inclusive, agreed to.

The CHAIRMAN: I am not sure to what extent discussion continued on clause 138 during my absence from the room, but I now obtained from my own office

the Combines Investigations Act and we are looking at section 31(1)(a). Mr. Ryan, would you like to look over my shoulder, if you do not mind; you are used to reading these things more quickly than myself. Section 31 itself would appear to commit the court to make an order prohibiting continuance of the conduct, which is complained of. Does that appear to be right, Mr. Ryan.

Mr. More (*Regina City*): Section 41 and section 41(1)(a) he mentioned, as I had in my notes.

The Chairman: I think it is actually Section 41, subsection (2), evidence against the participant. I do not know if we should read this or not. It would be the simplest thing to do; I will just read this out. It must be what he was referring to.

> In a prosecution under section 32 or 34 of this Act or under section 498 or section 498A of the Criminal Code,

And the act, of course, is the Combines Investigation Act.

> (a) anything done, said or agreed upon by an agent of a participant shall prima facie be deemed to have been done, said or agreed upon, as the case may be, with the authority of that participant;
>
> (b) a document written or received by an agent of a participant shall prima facie be deemed to have been written or received, as the case may be, with the authority of that participant; and
>
> (c) a document proved to have been in the possession of a participant or on premises used or occupied by a participant or in the possession of an agent of a participant shall be admitted in evidence without further proof thereof and shall be prima facie evidence
>
> (i) that the participant had knowledge of the document and its contents,
>
> (ii) that anything recorded in or by the document as having been done, said or agreed upon by any participant or by an agent of a participant was done, said or agreed upon as recorded and, where anything is recorded in or by the document as having been done, said or agreed upon by an agent of a participant, that it was done, said or agreed upon with the authority of that participant,
>
> (iii) that the document, where it appears to have been written by any participant or by an agent of a participant, was so written and, where it appears to have been written by an agent of a participant, that it was written with the authority of that participant.

In section 41(1) there are definitions of agent or a participant, documents, and participant. Somebody in the Department of Justice must have really gone to work on this clause.

The Chairman: I think this is what Mr. Macdonald was drawing to our attention this morning.

Mr. Cameron (*Nanaimo-Cowichan-The Islands*): I see why Mr. Ryan fights shy of the Combines Investigation Act. I would run a mile from it.

The Chairman: I guess the question for us to consider is whether under the circumstances surrounding the administration of the Bank Act, these sections

would add anything to the legislative purpose of clause 138. This really sums up the issue posed for us by Mr. Macdonald this morning.

Mr. SHARP: Mr. Chairman, as far as I am concerned, I want the banks to compete and the prohibitions that are put in against agreements not to compete, I hope will be effective. I am not an expert on the Combines Investigation Act either, and I have no objection to strengthening these provisions in the Bank Act if, in fact, that is necessary. When we drafted the act we felt that the Inspector General of Banks was in a very strong position to discipline the banks and that he did not anticipate any difficulties in this respect; but if the Committee feels that they want to strengthen his hand, the government would have no objection to it. I do not know whether in fact these particular procedures are necessary. We would be importing into the act some provisions drawn up for rather different circumstances, although for the same general purpose, namely to prohibit conspiracies in restraint of trade, to discipline those who might agree to fix charges against the public interest. I am all for it.

The CHAIRMAN: Now, that we have had the contents of these two sections brought before us and we have heard the Minister's initial comment, perhaps I should ask the members of the Committee if they have any comments or discussion to bring forward in the light of what has just been said.

Mr. FLEMMING: May I ask Mr. Elderkin what his views are concerning the insertion of such a section?

Mr. ELDERKIN: I offer an opinion only from my past experience that it appears to be unnecessary. I think, if I interpreted what was read in the correct way, these were actually provisions which were desirable in taking a court action against a person or against a corporation. That is what I understood the act to mean. I can only add that I frankly do not think we need them, based on my experience. That is all.

Mr. FLEMMING: That is exactly what I wanted to hear. In that amendment, it seems to me that we might very well disregard an insertion of this type because of what you have said and what the Minister has said also.

The CHAIRMAN: Well, if there are no further suggestions—

Mr. MORE (*Regina City*): Could you give me an explanation of what kind of deal you mean under 138(2)(b)?

Mr. ELDERKIN: Oh, yes, quite easily. Large corporations, Mr. More, normally like to bank with three or four banks and it is quite customary for them to sit down with one or more banks at a time to make their arrangements, particularly about term loans and that sort of thing.

Mr. MORE (*Regina City*): This is with the customer, negotiate—

Mr. ELDERKIN: With the customer's consent. This is entirely with the customer's consent. This is quite common in large term loans and we have to protect it in those cases, otherwise it would be a violation for the two of them to sit down together.

The CHAIRMAN: Before we do that, there has been an amendment tabled by Mr. Elderkin doubling the penalty from $5,000 to $10,000 and I would ask Mr. Clermont and Mr. Comtois to move this amendment so that it would be before us.

Mr. CLERMONT: Mr. Chairman, I move:

That Bill C-222, An Act respecting Banks and Banking, be amended by striking out line 8 on page 95 thereof and by substituting therefor the following: "is liable to a penalty of ten thousand dollars."

Mr. COMTOIS: I second that motion.

The CHAIRMAN: Is there any discussion on this amendment? If not, I would ask if the amendment that I have just referred to is carried.

Amendment agreed to.

The CHAIRMAN: Does clause 138 as amended carry?

Clause 138 as amended agreed to.

The CHAIRMAN: We now move on to clause 151.

Mr. MORE (*Regina City*): It was stood until tonight.

The CHAIRMAN: Yes, and we have not disposed of that as yet. We have disposed of the Shedules. Can we dispose of some of the remaining clauses in the Quebec Savings Bank Act?

Mr. ELDERKIN: Yes, Mr. Chairman, I think so.

On Clause 32—*Calls on Shares.*

Clause 32 is the clause referring to calls which was stood. It is similar to clause 39 in the Bank Act which was stood at Mr. Fulton's request but he has withdrawn the request. We passed clause 39 this morning.

The CHAIRMAN: In the light of this explanation, shall clause 32 of the Quebec Savings Bank Act carry.

Clause 32 agreed to.

Mr. ELDERKIN: Clauses 80 and 81 are similar to clause 92 and 93 in the Bank Act relating to disclosure and these were passed.

The CHAIRMAN: Shall clauses 80 and 81 carry?

Clauses 80 and 81 agreed to.

The CHAIRMAN: Clause 120.

On Clause 120—*Violation of interest provisions.*

Mr. ELDERKIN: Clause 120 is similar to clause 151 and relates back to the interest section. I presume it stands if clause 151 stands.

The CHAIRMAN: Yes, I guess it would have to. Clause 120 stands. Well, gentlemen, we have remaining clauses 76 and 91 and in view of the fact that both of these raise matters, shall I say, for further reflection perhaps we could agree to adjourn until this evening when we had decided to meet in any event. Are we in agreement?

Mr. MONTEITH: Mr. Chairman, on clause 76, is it assumed that Mr. Ryan is going to look into this over the dinner hour.

The CHAIRMAN: It is to be hoped he will have the stamina and strength. We do not want to impose on him but it was my understanding, and I know I will be corrected if I am wrong, that the basic legislative intent or policy intent was to

prevent certain types of concentration and the Minister may wish to consult with his officials on this clause. I know the effort that has gone into this clause and into the further draft.

Mr. ELDERKIN: Mr. Chairman, I might suggest to the Committee that we could pass Clause 120 in the Quebec Savings Bank Act and Clause 151 of the Bank Act for these are only penalties, and I do not think there is any thought in either one of them of changing the penalty relative to the interest clause. If the Committee saw fit to do so and passed clause 120 in the Quebec Savings Bank Act, the bill would be complete.

The CHAIRMAN: Yes, that is true.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, it has just been called to my attention that there is a subclause in clause 80 of the Quebec Savings Bank Act that subclause (3) does not apply in respect of a credit granted to a loan or an advance made to a corporation, partnership or association. This was I think taken out of the Bank Act and was to have been removed from this, too.

The CHAIRMAN: The sections are supposed to be the same.

Mr. ELDERKIN: It is an amendment; it is in the amendment. It is my fault, Mr. Chairman. We should have moved the amendment first.

The CHAIRMAN: Yes, I had assumed when I referred to Clause 80 it would be Clause 80 as amended exactly in the same way that Clauses 92 and 93 were amended. Perhaps I should not have telescoped my proposal.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): No; procedurally whether we should—

The CHAIRMAN: I had in effect used a little verbal shorthand.

Mr. ELDERKIN: Well, Mr. Chairman, if the Committee sees fit to pass the penalty section for clauses 120 and 151, as I say, I do not think there is any suggestion that the penalties should be changed, we could finish with the Quebec Savings Bank Act now, by passing Clause 120.

The CHAIRMAN: Yes. We are looking at Clauses 151 and 120 in the two acts.

Mr. ELDERKIN: Clause 151 is simply a penalty for violation of the various provisions of the Interest Act.

Mr. SHARP: Mr. Chairman, as to clause 76 in reflecting on the problem, would it be possible for the Minister or the Governor in Council, the banks, but I think the Minister is sufficient, to divest themselves of any investments they make that would have the effect in the opinion of the Minister of enabling them to hold more than the maximum voting control in a trust or loan company?

Mr. MORE (*Regina City*): This is what I had in mind in asking, if the intent of the legislation was violated, could the Minister require the divesting?

Mr. SHARP: It seems to me this is a possible way out. In fact, if the Committee thinks this is a useful channel to explore, we might—

The CHAIRMAN: I think this is what Mr. More was raising earlier and I see Mr. Comtois feels this is constructive and perhaps this would be a useful thing to

pursue over the dinner hour. Let us look at Clause 151. Is there anything further to be said about Clause 151 in the Bank Act.

Mr. ELDERKIN: Well, I want to point out that there will be editorial changes in the references to Clause 92 because you will remember what happened when we dropped subclause (2) out of Clause 92. This would require editorial changes only in the references.

The CHAIRMAN: What about clause 120 in the Quebec Savings Bank Act? Will editorial changes be required in that?

Mr. ELDERKIN: Exactly the same editorial changes will be required in that. It will be the same thing. The same editorial changes will be required in that. I can name the editorial changes. It is in subclause (2); subclause (3) should read subclause (2) and subclause (6) should read subclause (5); and likewise in clause 120 the same takes effect; subclause (3) would read subclause (2) and subclause (6) would read subclause (5). This comes about because we dropped subclause (2).

The CHAIRMAN: Is the Committee willing to adopt clause 151 subject to what the Inspector General just told us. Just one second; we are dealing with too many different things here at once. I should draw to the attention of the Committee that it has been proposed and this is what was troubling me a bit, that the penalty be increased from $500 to $1,000. This was in the booklet of proposed amendments dated February 21.

Mr. ELDERKIN: That is in the amendment.

The CHAIRMAN: Yes, that is right.

Mr. ELDERKIN: It is in the amendment as you are now—

The CHAIRMAN: Yes, I just wanted to refer to this specifically because as I say this is more than an editorial amendment.

Mr. ELDERKIN: No, that is in the amendment as submitted, to $500?

The CHAIRMAN: The amendment changes the penalty from $500 to $1,000.

Mr. LIND: When was this amendment introduced, February 21st. Not exceeding $1,000 and the officer employed to $500.

Mr. ELDERKIN: That is in subclause (2). The $1,000 is mentioned there.

Mr. MORE (*Regina City*): That is right.

The CHAIRMAN: Well, I just wanted to refer to it specifically because technically it is more than an editorial amendment.

Mr. MORE (*Regina City*): Have we adopted the amendment?

The CHAIRMAN: Well, it is a whole new clause actually but perhaps to make sure we follow the proprieties, Mr. Comtois has moved and Mr. Lind has seconded the amendment. Shall the amendment carry?

Amendment agreed to.

Clause 151 as amended, agreed to. The clause will carry as amended because it is really a substitution and the same thing will apply to clause 120. Are we agreed on that?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Well, I am saying it is the same. Mr. Lambert.

Mr. LAMBERT: When you have finished that and before you adjourn I want to make a comment on the suggestion made by the Minister regarding—

The CHAIRMAN: Yes, well, I think we may be able to finish at this moment the Quebec Savings Bank Act. So I will ask if clause 120 as amended is carried?

Clause 120, as amended agreed to.

The CHAIRMAN: Now, I am dealing only with the Quebec Savings Bank Act. Shall clause 1 of the Quebec Savings Bank Act carry?

Clause 1 agreed to.

Title agreed to.

Bill, as amended, agreed to.

The CHAIRMAN: Shall I report the bill as amended?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Well, another milestone passed. Mr. Lambert, you wanted to say something about the Minister's statement?

Mr. LAMBERT: I am just wondering about the exercise of ministerial discretion which is proposed. Because there may be some difference of opinion about this, if the act merely provides that there shall be ministerial discretion, then there is no possibility of appeal.

Mr. SHARP: I would think that is right.

Mr. LAMBERT: That is something that I am not too sure the Minister in essence really wants.

Mr. SHARP: Shall I put it this way, Mr. Chairman. I do not think that the banks would deliberately try to circumvent the intent of the act on the control of other financial institutions, or at least their investment in other financial institutions, but just in case they might be tempted, this clause would enable the Minister to stop them. I do not think that this is a discretion that he would have to exercise. It is more a warning that limitations in the act cannot be avoided by taking advantage of the $5 million figure to make an investment in a holding company and in that way acquire control of a trust company or increase the investment in a bank above the 10 per cent limitation. It is not the kind of discretion that I think most of us as parliamentarians object to. It is the kind of discretion that is in effect a warning that the intent of the act is not to be avoided by an indirect transaction.

Mr. LAMBERT: Because there might be a distinct and honest difference of opinion between the Minister and the bank concerned.

Mr. SHARP: I cannot conceive of such circumstances.

Mr. LAMBERT: I want to have that considered because the question of the facts, the decision—the act says "if in the opinion of the Minister" then, regardless of whether the opinion is right or wrong the bank has no recourse whatsoever. They could not go to court even if there were provisions for appeal because no court would substitute its opinion for that of the Minister.

Mr. SHARP: In my suggested drafting, which was just off the top of my head, I included "in the opinion of the Minister" because it is a question not of holding of shares but of control down the line, and I found it very difficult, and I think Mr. Ryan did, too, to draft a clause which would relate to the control to be exercised in terms of the shareholdings at the beginning.

Mr. LAMBERT: Well, I know that sometimes for drafting purposes it is easier but there is a matter of principle involved that I find rather difficult to accept in so many things, in so many statutes, "in the opinion of the Minister". It makes it—

Mr. CLERMONT: Would you allow a question, Mr. Lambert?

Mr. LAMBERT: Yes.

Mr. CLERMONT: To whom should the appeal be directed?

Mr. LAMBERT: Well, if it is based on the non-discretionary, if it is a question of fact, then it is an appeal to the court if there is a provision for appeal but if it is expressed, "if in the opinion of the Minister", then there is no appeal at all whether it is written in the act or not.

Mr. SHARP: I do not think, Mr. Chairman, it cures that defect to refer to the Governor in Council.

Mr. LAMBERT: Well, no I do not think so.

Mr. SHARP: So that the reason for referring to the Minister rather than the Inspector General was at least to give a responsible member of the government an opportunity of looking at it.

Mr. LAMBERT: Maybe I am being a little over-cautious here. I have an inherent dislike for ministerial discretion that has now popped its ugly head up in the Income Tax Act.

Mr. SHARP: I am always embarrassed when I have to exercise it.

Mr. LAMBERT: I know.

Mr. SHARP: I have no quarrel with Mr. Lambert on that point. We have been searching around, not all afternoon, but at least for part of the afternoon, for a means out of the dilemma into which we have put ourselves because we want to be fair to the banks and not to require them to divest themselves of such things as Kinross and RoyNat and UNSAS, not to prevent other banks from entering into the same sort of transactions in the future. Mr. Ryan and Mr. Elderkin have spent some time trying to draft a suitable clause and they found that they could not put into statutory terms exactly the intent. Being unable to do this, I suggested—I apparently followed up a suggestion by Mr. More—that this could be cured by making it quite clear in the act that you could not do by indirection what you are prevented from doing by direction, that is by giving the Minister the authority to require the bank to divest itself of an investment which had the effect of circumventing the prohbition contained elsewhere in the act.

Mr. LAMBERT: Because there is ministerial discretion under clause 160 about the waiver of pecuniary penalties, but this is not a pecuniary penalty.

Mr. ELDERKIN: There is discretion also in the same clause, at least in this clause, on extension of time in which shares may be held. The Minister may exercise his discretion there.

Mr. LAMBERT: Well, I have waved the flag. I have put it like this and I just want you to consider that.

The CHAIRMAN: Well, perhaps we could recess now until 8.00 p.m. The two clauses I have mentioned may be the subject of further reflection, in the light of our earlier discussions, and they will be before us when we resume at 8.00 p.m.

The meeting is adjourned.

EVENING SITTING

The CHAIRMAN: Gentlemen, we are in a position to start our meeting. Unfortunately Mr. Ryan is downstairs getting an amendment typed which I believe he wishes to propose with respect to clause 76.

Mr. Ryan, would you care to read out the fruit of your labours over the supper hour. I know the Committee is grateful to you for this extra effort. This is a proposed amendment to clause 76.

On Clause 76—*Ownership of Corporate Stock.*

Mr. RYAN: Mr. Chairman, the amendment is in the form of a substitution for page 3. It is a proposed rewording, a revision. It is under date of February 23—

The CHAIRMAN: I should explain here that because of the hour, the secretarial service is not as complete as it might be; it is unfortunate that we do not have the full range of copies, but we will make up this deficiency as soon as possible. Mr. Ryan, could you—

Mr. RYAN: Clause 76 revised, page 3, substitution—paragraph (c) of the amendment by adding after subclause (3) of clause 76 on page 54 thereof the following new subclauses:

Exception.

"(4). The bank may own shares in excess of the maximum number prescribed by this section, if the shares are acquired through a realization of security for any loan or advance made by the bank or any debt or liability to the bank, but any such shares acquired after the coming into force of this Act shall be sold or disposed of by the bank within a period of five years from the day on which they were acquired.

This subclause (4) is identical with the subclause that now appears on page three of the previous amendment.

Power to require divesting of shares.

(5). Notwithstanding any other provision of this section except subsection (4), where in the opinion of the Minister the ownership by the bank of shares in a corporation in any number permitted under subparagraph (i) of paragraph (a) of subsection (1) or sub-paragraph (i) of paragraph (a) of subsection (2) enables the bank to exercise, directly or indirectly, effective control of a trust or loan corporation, the Minister may by order require the bank to divest itself of those shares in that corporation within such time as the Minister considers reasonable and the bank shall sell or dispose of such shares within the time prescribed therefor by the Minister."

Paragraph (d) of the amendment: by striking out subclause (6) of clause 76 on page 54 thereof and by renumbering the present subclauses (4) to (8) on pages 54 and 55 thereof as subclauses (6) to (9) respectively; and, paragraph (e) of the amendment:—by the way, (e) is the same as it appears on page 3 of the revised clause 76; it is just a matter of putting everthing together on the one page—by striking out line 32 on page 55 thereof and by substituting therefor the following:

"province;

(c) "foreign corporation" means a corporation incorporated outside Canada; and

"Foreign corporation." "Trust or loan corporation."

(d) "trust or loan corporation" means a Canadian corporation that carries on the business of a trust company within the meaning of the *Trust Companies Act* or the business of a loan company within the meaning of the *Loan Companies Act* and that accepts deposits from the public."

The CHAIRMAN: Now, the aim of this amendment is to meet the point that was raised both yesterday and earlier today, that if 76 is redrafted it might permit, through interposition of holding companies, ownership by a bank above the prescribed percentage of trust companies or other banks. This is an attempt to meet this while keeping the same basic concept of 76, to take into account the desirability, argued by some, of banks to be able to own RoyNat and companies of that type. This reflects a suggestion by yourself, Mr. More.

Mr. MORE (*Regina City*): Yes, it is in line with what I suggest.

The CHAIRMAN: That is what I say, reflects; I am not trying to say this is your wording as such.

Mr. MORE (*Regina City*): My suggestion was just something out of my head, as a means to resolve the problem.

The CHAIRMAN: Yes.

Mr. LAMBERT: I want to get the import because I was away at the time of the discussion in connection with this matter. Does it mean that, with some long range effect, the bank owning up to 10 per cent of the shares in a trust or loan company effectively controls, or does it mean, owns in excess of 10 per cent?

Mr. RYAN: In excess of 10 per cent.

Mr. LAMBERT: Well, subclause (5) relates directly to a trust or loan company? In other words, what you are saying in (5) is that if the bank through some long-range and complicated ownership formula in ordinary corporations is able to exercise directly or indirectly effective control of a trust or loan corporation, then, the Minister may direct that the bank shall divest itself of the shares which give it that control.

Mr. RYAN: That is right.

Mr. LAMBERT: All of them?

Mr. RYAN: All of them. This is a discouragement for trying to get around the provisions of (1) and (2) .They can come back later with a 10 per cent increase which is permitted under paragraphs (b) in both these subclauses—

Mr. LAMBERT: But would it not still be permissible for them to own a limited number of shares through this which does not give them the control? What you are doing here is saying, if this ownership formula results in effective control of a trust company you have to get rid of everything in that ownership formula.

Mr. RYAN: The bank's ownership of shares.

Mr. LAMBERT: Yes, I agree with you; but is this not rather drastic? Would you not limit it only to that portion of the ownership formula which results in the effective control.

Mr. RYAN: That might be more onerous, Mr. Chairman, on the Minister than on the bank. This makes it more onerous on the bank if they are going to get themselves into this particular position.

Mr. SHARP: It is intended to be a discouragement, Mr. Chairman.

Mr. LEBOE: I do not think it will ever be applied.

Mr. More (*Regina City*): Oh, I do not know. Bankers are just as smart as a lot of other people. The Minister has quite the problem with loopholes.

Mr. SHARP: That is the most complimentary thing that has been said about a banker in a long time.

An hon. MEMBER: Do you think they are clever—

Mr. MORE (*Regina City*): Is this a compliment?

Mr. LEBOE: I think they are clever enough to know that parliament still exists.

Mr. LAMBERT: This is where, Mr. Chairman, I feel that the ministerial discretion becomes rather important because they have no appeal as to anything. Well, it is capital punishment without any choice, without any right of appeal.

Mr. SHARP: I find it difficult to believe this would be done inadvertently, Mr. Chairman.

Mr. LAMBERT: Well, all I can say is that the powers are certainly wide-sweeping, by George.

Mr. LEBOE: I say let us try it, and get on with the business.

The CHAIRMAN: Before we can dispose of this officially, we will have to wait a few minutes. I think the reason should be obvious. Perhaps for the moment we can stand 76 and see if we have any further discussion on item 1. Well, gentlemen, perhaps to have this amendment formally before us, I would ask Mr. Clermont to move it, seconded by Mr. Comtois, so that we can have the amendment to Clause 76 not only as it was tabled in the booklet of February 22 but as it was further modified by the text presented to us by Mr. Ryan this evening. Is that clear?

Mr. CLERMONT: I so move.

Mr. COMTOIS: I second the motion.

The CHAIRMAN: Do we have further discussion on the amendment? Shall the amendment carry?

Some hon. MEMBERS: Carried.

Amendment agreed to.

The CHAIRMAN: Shall clause 76 as amended carry?

Some hon. MEMBERS: Carried.

Clause 76, as amended, agreed to.

The CHAIRMAN: We have left clauses 91 and 1. Clause 1 had been stood until this evening. I would ask the Committee if they are prepared to pass clause 91 at this time?

On clause 91—*Powers re interest.*

Mr. MONTEITH: Mr. Chairman, I would like to move:

> That consideration of clause 91 be deferred until any time after Monday noon next.

The CHAIRMAN: This is a motion to save this clause 91 until some time after Monday noon. I guess I shall have to ask if there are seconders.

Mr. MORE (*Regina City*): I second the motion.

The CHAIRMAN: Seconded by Mr. More. I think if I wanted to follow the rule strictly, a motion of this type would not be debatable, although if somebody wants to make some comments on the schedules and so on, I certainly will not be adverse to it.

An hon. MEMBER: What schedules?

The CHAIRMAN: If there is no comment,—I cannot ask for discussion because, as I say, motions of this type I do not think are debatable—I shall put the motion.

Motion negatived.

The CHAIRMAN: I declare the motion lost. I am going to ask if clause 91 carries, and if there is further discussion on the merits, I shall be happy to receive it.

Shall clause 91 as amended carry?

Some hon. MEMBERS: On division.

The CHAIRMAN: Carried on division.

Clause 91, as amended, agreed to, on division.

The CHAIRMAN: Now we come to clause 1. Shall clause 1 carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Carried.

Clause 1 agreed to.

The CHAIRMAN Shall the title carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Carried.

Title agreed to.

The CHAIRMAN: Shall the bill as amended carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Carried.

Mr. MORE (*Regina City*): Shall the amended bill carry.

The CHAIRMAN: Well, either way, there has been some restructuring.

Shall I report the bill as amended?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Carried. Now, I would ask for a formal motion that Bill No. C-222 and Bill No. C-223 as amended by this Committee be reprinted.

Mr. CLERMONT: I so move.

Mr. COMTOIS: I second the motion.

Motion agreed to.

The CHAIRMAN: I shall ask Messrs. Clermont and Comtois again to lend us their names to support a motion with respect to the Committee causing to be printed a certain number of copies in French and in English of the Minutes of the Proceedings and Evidence in respect to the decennial revision of the Bank Act in blue book form. Before I have the motion formally presented, I gather—and I will ask Mr. Elderkin to give me further information—it is the custom that the proceedings be reprinted as a document in a blue cover and I am sure there is no party significance here. It is the custom—

Mr. ELDERKIN: No, it was in 1954—it was pointed in blue.

The CHAIRMAN: That is right. Because of the interest in the subject matter of our deliberations, this makes it more generally available to the public. What were the quantities in previous years? The clerk informs me that the same number of copies of the blue book as our proceedings will be printed. There will be 1,500 in English and 750 in French. This motion is formally placed before us by Mr. Clermont and Mr. Comtois.

Mr. MONTEITH: I just want to raise a question on the number of copies that are reprinted. Ten years later they seem to become very scarce. I wondered whether it would not be feasible, when they are at it, to print another 250 in English and another number in French.

The CHAIRMAN: The clerk informs me that the number in question is for the use of parliament.

Mr. MONTEITH: Well, it is parliament I am concerned with.

The CHAIRMAN: I just want to finish the explanation that was given to me, that apparently the Queen's Printer prints an equal number for sale to the public.

Mr. MONTEITH: I am not concerned about the public; I am concerned about what is available for us.

The CHAIRMAN: All right. I think your suggestion is very sound. What additional number do you think we should add?

Mr. MONTEITH: I think 250 in English and a corresponding increase in French.

Mr. CLERMONT: What is the total in English and French.

Mr. MONTEITH: Another 500 and 250, pardon me.

The CHAIRMAN: All right. Will you modify your motion to 2,000 in English and 1,000 in French of the blue book. Thank you, Mr. Monteith, for this constructive suggestion in view of what appears to be greater interest in these proceedings than in other years. If there is no further discussion, I would ask if this motion carries.

Some hon. MEMBERS: Carried.

Motion agreed to.

The CHAIRMAN: Now, before meeting in camera to discuss any factual comments we may have, I think I, as Chairman, will be speaking on behalf of the entire Committee if we, in effect, adopt a vote of thanks to our clerk, Miss Ballantine, and to the staff who have served us so loyally over the months.

Mr. MORE (*Regina City*): Are we going to send her to Bermuda?

The CHAIRMAN: Well, if we all go, too; if that is in order.

Mr. MORE (*Regina City*): A free trip on the next plane that any Minister takes down there.

Mr. SHARP: That is really not very much compensation.

The CHAIRMAN: I am sure that a similar vote of thanks would be extended to our research staff who I think were quite useful in helping to make the work of the Committee certainly more informed and effective than it otherwise would have been. I, as Chairman, would like to express a word of thanks to the Committee for their co-operation. It has been a long and arduous period and I think that certainly we have helped demonstrate to parliament and the public at large the type of work that can be done by a Committee in dealing with matters of this type and, aside from anything we have added to the study of this important aspect of our economic system, we may have helped to advance the cause of effective parliamentary reform too in one way or another. I would like to thank all those who participated in the work of the Committee for their co-operation, but I want to add a special word, without singling anyone out, for the group who have made this Committee assignment their primary responsibility and I refer, in saying this, to members of all parties who have made this, as I say, their primary assignment and who have done so much to make my task as Chairman less onerous than it would otherwise have been.

Mr. LEBOE: If you would vacate that chair in spirit for just a moment I would like to move a vote of thanks to yourself, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I would like to have recorded, Mr. Chairman, and I am sure I am speaking on behalf of all members of the Committee, our great appreciation for the manner in which you conducted these meetings. I think you have done a remarkable job, and I think you should get considerable credit for the success of these hearings.

(*Translation*)

Mr. CLERMONT: Mr. Chairman, excuse me Mr. Minister, I want to join with Mr. Cameron to congratulate you for the way you conducted these deliberations in this Committee, in both languages. I also want to thank the clerk and I do not

know if I am in order to also thank the former Inspector General of banks, Mr. Elderkin, Mr. Ryan, Mr. Rasminsky, of the Bank of Canada and the other officials who have appeared before this Committee and helped to carry out the study of Bills C-222, C-190 and C-223.

(*English*)

The CHAIRMAN: I think in making this comment you reflect the view of the entire Committee because Mr. Elderkin in this sense was not only a consultant to the Minister of Finance, but also to the Committee in this arduous field, and I know we wish him well in his retirement. Of course, we must include Mr. Ryan, and other departmental officials, who have worked with us.

Mr. SHARP: Mr. Chairman, may I say a word. As the Minister who sponsored this legislation, I would like to congratulate the Committee for the thorough way in which they have examined it. Perhaps the greatest compliment I can pay to the Committee is to say that I think the bill has been improved as a result of your deliberations. I agree with you, Mr. Chairman, that the work of this Committee is an illustration of the way in which parliamentary Committees can work, and I hope it will encourage all members of the house to devote themselves as diligently as you have to Committee work.

Mr. LAMBERT: Mr. Chairman, may I say this. I had hoped to add a postscript to what the Minister has said that might encourage ministers to submit more legislation to the Committees, too. Beyond that, I would like to say I would not like to have this Committee break up without waving a cheery goodbye to the almost members of the Committee, the representatives of the Canadian Bankers' Association.

(*Translation*)

Mr. CLERMONT: I would not want to forget to say that on behalf of the French-speaking members, I would like to thank the interpreters who have enabled our remarks to be understood by our English speaking colleagues, and I would like to join with you to thank our two research workers, analysts or economists, who have helped the Committee to do a better job of work, if I may use this expression.

Mr. COMTOIS: I would like to express a wish before the end of this sitting, that all people who took part in this Committee be here again ten years from now to take part in the next revision of the Bank Act.

The CHAIRMAN: Is this a wish or a reproach?

(*English*)

Well, gentlemen,—

Mr. MONTEITH: Mr. Cameron and I, I think, are the only two present who participated in the last revision of the Bank Act.

The CHAIRMAN: I do not want to dampen this note of good cheer, but the Committee itself has a little bit more work to do for the next half hour or so, and we will be consulting about future proceedings, Mr. Cameron. I will ask those not on the Committee to excuse themselves; we are going to have an *in camera* session to finalize our report. I do not think it should take long.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 53

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TUESDAY, FEBRUARY 28, 1967

Respecting

Bill C-190, An Act to amend the Bank of Canada Act.
Bill C-222, An Act respecting Banks and Banking.
Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

INCLUDING TWENTY-FIRST AND TWENTY-SECOND REPORTS TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25831—1

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray
Vice-Chairman: Mr. Ovide Laflamme
and Messrs.

Addison,	Fulton,	Mackasey,
Cameron (*Nanaimo-Cowichan-The Islands*)	Gilbert,	McLean (*Charlotte*),
	Irvine,	Monteith,
Chrétien,	Lambert,	More (*Regina City*),
Clermont,	Latulippe,	Munro,
Coates,	Leboe,	Valade,
Comtois,	Lind,	Tremblay,
Flemming,	Macdonald (*Rosedale*),	Wahn—25.

Dorothy F. Ballantine,
Clerk of the Committee.

REPORTS TO THE HOUSE

MARCH 1st, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-FIRST REPORT

Pursuant to its Orders of Reference your Committee has considered the following Bills:

Bill C-190, An Act to amend the Bank of Canada Act

Bill C-222, An Act respecting Banks and Banking

Bill C-223, An Act respecting Savings Banks in the Province of Quebec.

Your Committee has agreed to report Bill C-190, An Act to amend the Bank of Canada Act, without amendment.

Your Committee has agreed to report Bill C-222, An Act respecting Banks and Banking, with amendments.

Your Committee has agreed to report Bill C-223, An Act respecting Savings Banks in the Province of Quebec, with amendments.

Your Committee has ordered a reprint of Bills C-222 and C-223 embodying the amendments adopted by the Committee.

A further report, setting forth the above-mentioned amendments to Bills C-222 and C-223, and other comments, is being prepared and will be presented as soon as possible.

A copy of the Minutes of Proceedings and Evidence relating to these Bills will be tabled.

Respectfully submitted,

HERB GRAY,
Chairman.

25831—1½

MARCH 9, 1967

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-SECOND REPORT

In its Twenty-first Report to the House, presented March 1, 1967, your Committee reported Bill C-190 without amendment. At the same time Bills C-222 and C-223 were reported with amendments.

Because of the time element, it was not then possible to set forth the amendments in detail; they were, however, included in the reprints of Bills C-222 and C-223, as ordered by the Committee.

Your Committee held 79 meetings from October 25, 1966 to February 28, 1967, and heard the following witnesses (listed in order of appearance before the Committee):

Mr. C. F. Elderkin, Inspector General of Banks (later Special Adviser, Department of Finance)

Dr. P. M. Ollivier, Parliamentary Counsel

Mr. J. W. Ryan, Department of Justice

Mr. Louis Rasminsky, Governor of the Bank of Canada

The Canadian Bankers' Association:

- Mr. S. T. Paton, President, CBA
- Mr. Léo Lavoie, Vice-President, CBA
- Mr. J. H. Coleman, Vice-President, CBA
- Mr. W. T. G. Hackett, Chairman, CBA Bank Act Revision Committee
- Mr. R. M. MacIntosh, Joint General Manager, Bank of Nova Scotia
- Mr. G. R. Sharwood, Deputy Chief General Manager, Canadian Imperial Bank of Commerce
- Mr. W. J. Dixon, Deputy General Manager, Bank of Nova Scotia
- Mr. E. Cate, Q.C., Solicitor for CBA
- Mr. F. L. Rogers, Chairman, CBA Economists Committee
- Mr. B. W. Powers, General Manager (Administration), Bank of Montreal
- Mr. René Leclerc, General Manager, La Banque Canadienne Nationale
- Mr. Gilles Mercure, Assistant General Manager, La Banque Provinciale du Canada
- Mr. J. F. Duffy, Superintendent, Canadian Imperial Bank of Commerce

Mr. J. Douglas Gibson, former Executive Vice-President, Bank of Nova Scotia and former member of the Royal Commission on Banking and Finance

Mr. G. Arnold Hart, President, Bank of Montreal

Mr. W. Earle McLaughlin, Chairman and President, The Royal Bank of Canada

Mr. J. W. Powell, President, RoyNat Limited

Mr. Louis Hébert, President, La Banque Canadienne Nationale

Mr. H. H. Binhammer, Associate Professor of Political and Economic Science, Royal Military College

Mr. David W. Slater, Professor of Economics, Queen's University

Mr. E. P. Neufeld, Professor of Economics, University of Toronto

Mr. Jacob S. Ziegel, Professor of Law, McGill University

Mr. R. Caterina, Associate Professor, Accounting and Finance, Carleton University

Mr. E. P. C. Burke, General Manager, The Canadian Credit Men's Association

Mr. W. E. Scott, Assistant Inspector General of Banks (later Inspector General of Banks)

Mr. Joseph Pope, Mr. R. G. D. Lafferty, Mr. Terry Howes, Mr. Frank O'Hearn, Mr. Melvin Rowatt, Mr. Harry H. Hallatt

The Canadian Federation of Agriculture:
Mr. David Kirk, Executive Secretary

CUNA International Inc.: Messrs. Robert J. Ingram, A. R. Glen, W. Moxon, A. W. Wagar and L. R. Tendler

The Mercantile Bank of Canada:
Mr. Robert P. MacFadden, President
Mr. James S. Rockefeller, Chairman
Mr. Stewart B. Clifford, Executive Vice-President and General Manager
Mr. André Bachand, Director
Mr. Kenneth B. Palmer, Q.C., Director
Mr. Henry Harfield, Counsel to First City National Bank

A Group of Twelve Trust Companies:
Mr. Sinclair M. Stevens, President, York Trust and Savings Corporation
Mr. H. Soule, Q.C., President, Hamilton Trust and Savings Corporation
Mr. Léo Sauvé, General Manager, Lincoln Trust and Savings Company
Mr. Jarvis Freedman, President, Rideau Trust Company
Mr. John Burnett, Secretary, Lincoln Trust and Savings Company
Mr. Stewart Ripley, Executive Vice-President, Metropolitan Trust Company
Mr. K. L. Cunningham, Managing Director, District Trust Company

Mr. James E. Coyne, President, Bank of Western Canada

Mr. Sinclair M. Stevens, President, British International Finance (Canada) Limited

The Honourable Mitchell Sharp, Minister of Finance

Assisting the Committee as economists were Mr. Denis Baribeau, B.Comm., M.A., and Miss M. R. Prentis, B.Sc.(Econ.).

Noting the desirability of increasing competition in the banking industry through the establishment of more chartered banks, your Committee recommends that the rules of the House be amended to make it possible for the House to come to a prompt decision on applications for bank charters after reasonable debate, provided that before a final decision is made, the applications be referred to the Standing Committee on Finance, Trade and Economic Affairs for detailed study.

Your Committee recognizes the value of regular, complete decennial revisions of the Bank Act, the Bank of Canada Act and the Quebec Savings Banks Act, but believes that these should not prevent this Committee carrying out special studies on subjects related to these Acts and amendments being made to them from time to time if such should become necessary in the interval.

Your Committee has commenced some studies with regard to the desirability or otherwise of the establishment in Canada of agencies of foreign banks. However, it has not been able to complete these studies in the time available and requests authority to pursue these studies further.

Your Committee recommends that the Canadian Bankers' Association Act be amended to permit those financial institutions who presently have access to the clearing system only through the intermediary of a chartered bank to participate directly in the system on an equitable basis.

Your Committee recommends that the supporting services for this and other Standing Committees be expanded to meet the volume of work presently being carried out by them, such expansion to include

(*a*) more prompt translation of briefs and proposed amendments,

(*b*) faster printing of Committee proceedings,

(*c*) authority to hire expert staff in advance of the formal referral to the Committee of major legislation or special areas of study.

Your Committee now reports the amendments to the above-mentioned Bills as follows:

Amendments to Bill C-222, An Act respecting Banks and Banking:

Clause 4

Strike out clause 4 and substitute therefor the following:

"4. This Act applies to each bank named in Schedule A and does not apply to any other bank."

Clause 6

Strike out clause 6 and substitute therefor the following:

"6. Subject to this Act,

(*a*) if Parliament sits on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the first day of July, 1977, and no longer, and

(b) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

Clause 11

In subclause (3) strike out lines 43 and 44 on page 7 and substitute therefor the following:

"scription, give his post office address, and this shall appear in the stock books in connec-"

Clause 12

(a) In subclause (1) strike out line 22 on page 8 and substitute therefor the following:

"poration as the place where the head office of the bank is to be situated, at such time and at"

(b) In subclause (3) strike out the word "and" in line 37 on page 8, and

(c) In subclause (3) strike out line 40 on page 8 and substitute therefor the following:

"meeting of the shareholders, and

(d) appoint two persons having the qualifications specified in subsec-section (1) of section 63, but not being members of the same firm, to be the auditors of the bank until the first annual general meeting of the shareholders,"

Clause 18

In subclause (6) strike out line 18 on page 14 and substitute therefor the following:

"(a) he is a director of a bank to which the *Quebec Savings Banks Act* applies or of a company incorporated"

Clause 26

Strike out lines 10 and 11 on page 17 and substitute therefor the following:

"meeting of directors, and a summary thereof for a period of twelve months ending not earlier than sixty days before the notice showing the total"

Clause 29

Strike out lines 13 and 14 on page 18 and substitute therefor the following:

"current loans to any person that are included in the latest return made by the bank to the Minister under section 103 and the aggregate amount of which exceeds one-tenth of one per cent of the"

Clause 33

(*a*) Strike out line 45 on page 20 and substitute therefor the following:

"section 53 or subsection (2) of section 56 be accepted by the bank; and"; and

(*b*) Strike out line 51 on page 20 and substitute therefor the following:

"fix a date, not earlier than the thirtieth day after the day on"

Clause 35

Strike out lines 40 and 41 on page 21 and substitute therefor the following:

"give his post office address and this shall appear in the stock books in connection with"

Clauses 34 to 36

(*a*) Renumber subclauses (1) and (2) of clause 34 on page 21 as clauses 34 and 35, respectively:

(*b*) Strike out line 15 on page 21 and substitute therefor the following:

"disposal of shares under section 34 exceeds the price per";

(*c*) Renumber clause 35, as amended, on page 21, as clause 36;

(*d*) Strike out the reference to section 33 or 34 in line 36 on page 21 and substitute therefor "sections 33 to 35,"; and

(*e*) Strike out clause 36 on page 21.

Clause 51

In subclause (1) strike out line 15 on page 27 and substitute therefor the following:

"mission in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Clause 52

(*a*) Strike out line 32 on page 27 and substitute therefor the following:

"right, but does not include an official or corporation per-";

(*b*) Strike out the word "or" in line 51 on page 28, strike out paragraph (*f*) on page 29 and substitute therefor the following:

"(*f*) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1);

(*g*) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her

Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1); or

(*h*) both shareholders are associated within the meaning of paragraphs (*a*) to (*g*) with the same shareholder,"; and

(*c*) Strike out line 41 on page 29 and substitute therefor the following:

"virtue of paragraph (*h*) of subsection (2) by".

Clause 53

Strike out line 21 on page 30 and substitute therefor the following:

"of a share of the capital stock of the bank to any person, including without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1) of section 52,"

Clause 54

In subclause (3) strike out line 21 on page 33 and substitute therefor the following:

"(*c*) an official or corporation administering, managing or investing"

Clause 56

(*a*) In subclause (2) strike out lines 15 to 24, inclusive, on page 36 and substitute therefor the following:

"(2) Where more than twenty-five per cent of the issued and outstanding shares of the capital stock of the bank were held on the 22nd day of September, 1964, in the name or right of or for the use or benefit of any one non-resident, the bank, so long as the total number of shares of the capital stock of the bank held by non-residents exceeds twenty-five per cent of the total number of issued and outstanding shares of the capital stock of the bank,

(*a*) shall refuse to allow a transfer of a share of the capital stock of the bank to a non-resident to be made or recorded in a register of transfers of the bank unless the transfer is from a non-resident to any associates of the non-resident; and

(*b*) shall not accept a subscription for a share of the capital stock of the bank by a non-resident;

but if at any time after the 22nd day of September, 1964, there is no one person in whose name or right or for whose use or benefit more than ten per cent of the issued and outstanding shares of the capital stock of the bank are held, this subsection ceases thereafter to have any force or effect."

(*b*) In subclause (7) strike out line 21 on page 38 and substitute therefor the following:

"(*b*) an official or corporation administering, managing or investing"

Clause 60

In subclause (2) strike out paragraph (c) and substitute therefor the following:

"(c) a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form specified in Schedule P and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

Clause 63

(a) Strike out subclause (12) and substitute therefor the following:

"(12) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be submitted by the directors under section 60."

(b) In subclause (13) strike out lines 45 and 46 on page 43 and substitute therefor the following:

"end of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for losses for the year, and shall include such"

(c) In subclause (17) at the end of line 22 on page 44 add the following:

"but this subsection does not apply in the case of a corporation controlled by the bank that carries on its operations in a country other than Canada if the law of that country makes provision with respect to auditors."

Clause 64

Strike out subclauses (6) to (9) and substitute therefor the following:

"(6) The Inspector shall be paid a salary fixed by the Governor in Council on the recommendation of the Minister and shall be an officer of the Department of Finance, but the provisions of the *Public Service Employment Act* do not apply to him.

(7) The Inspector and any person temporarily performing the duties of the Inspector shall not borrow money from a bank unless he has first informed the Minister in writing of his intention to do so.

(8) Such other officers and employees as are necessary for the proper conduct of the duties of the Inspector shall be appointed in the manner authorized by law."

Clause 72

(a) Strike out lines 11 and 12 on page 48 and substitute therefor the following:

"the average during any month than an";

(*b*) Renumber subclauses (3) to (6), inclusive, on pages 48 and 49 as subclauses (4) to (7) inclusive; and

(*c*) Immediately after line 31 on page 48 add the following:

"(3) Notwithstanding subsection (1), the cash reserve to be maintained by the bank pursuant to subsection (1) in any month following the twelfth month after the coming into force of this Act shall, if so required by the Bank of Canada, be not less on the average during each of the two separate periods comprised of the first fifteen days of that month and the remaining days of that month than the amount specified in subsection (1); and in the event of such a requirement, the Bank of Canada shall make its requirement apply generally to all banks, give written notice of its action specifying the months to which the requirement applies, publish such notice forthwith in the *Canada Gazette* and mail a copy of the notice to all banks not less than thirty days before the first day of the first of the months so specified, and may, at any time by advice notified in the same manner, reduce in number the months to which the requirement applies." and

(*d*) Strike out lines 7 and 8 on page 49 and substitute therefor the following:

"any month mentioned in subsection (1) or (4) or any period mentioned in subsection (3)"

Clause 75

(*a*) In subclause (1) strike out line 8 on page 51 and substitute therefor the following:

"negotiable instruments, coin, gold and silver";

(*b*) In subclause (2) strike out the figure "1967" in line 16 on page 52 and substitute therefor the figure "1972";

(*c*) In subclause (3) strike out lines 25 and 26 on page 52 and substitute therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof, the amount".

(*d*) In subclause (4) strike out lines 49 to 52, inclusive, on page 52 and substitute therefor the following:

"real or immovable property in Canada comprising existing buildings that are used, or buildings in the process of construction that are to be used, to the extent of at least one-half of the floor space thereof, as private dwellings either by the owners or by lessees under leases for terms of at least one month, other than loans or advances made or guaranteed under any Act of the Parliament of Canada other than this Act, shall not exceed the lesser of"

Clause 76

(*a*) Strike out lines 41 to 49, inclusive, on page 53 and substitute therefor the following:

"76. (1) Except as provided in this section, the bank shall not own shares of the capital stock of

(*a*) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than fifty per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof, in any case where the total amount paid or agreed to be paid by the bank for such of the shares of the corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the corporation issued and outstanding, be voted by the holders thereof;

or

(*b*) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the";

(*b*) Strike out lines 3 to 16, inclusive, on page 54 and substitute therefor the following:

"(2) Except as provided in this section, the bank shall not own shares of the capital stock of a foreign corporation in any number that would, under the voting rights attached to the shares owned by the bank, permit the bank to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the foreign corporation issued and outstanding, be voted by the holders thereof, if the foreign corporation owns shares of the capital stock of

(*a*) a Canadian corporation, other than a trust or loan corporation,

(i) in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than fifty per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof, in any case where the total amount paid or agreed to be paid by the foreign corporation and the bank for such of the shares of the Canadian corporation as have voting rights attached thereto, is five million dollars or less, or

(ii) in any other case, in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the Canadian corporation issued and outstanding, be voted by the holders thereof;

or

(b) a trust or loan corporation in any number that would, under the voting rights attached to the shares owned by the foreign corporation and the bank, if any, permit the foreign corporation, or the foreign corporation and the bank, to vote more than ten per cent of the total votes that could, under the voting rights attached to all the shares of the trust or loan corporation issued and outstanding, be voted by the holders thereof;

and any such shares in excess of the maximum number prescribed by this subsection owned by the bank at the coming into force of this Act, shall be sold or disposed of before the first day of July, 1971.";

(c) After subclause (3) on page 54 add the following new subclauses:

"(4). The bank may own shares in excess of the maximum number prescribed by this section, if the shares are acquired through a realization of security for any loan or advance made by the bank or any debt or liability to the bank, but any such shares acquired after the coming into force of this Act shall be sold or disposed of by the bank within a period of five years from the day on which they were acquired.

(5). Notwithstanding any other provision of this section except subsection (4), where in the opinion of the Minister the ownership by the bank of shares in a corporation in any number permitted under subparagraph (i) of paragraph (*a*) of subsection (1) or subparagraph (1) of paragraph (*a*) of subsection (2) enables the bank to exercise, directly or indirectly, effective control of a trust or loan corporation, the Minister may by order require the bank to divest itself of those shares in that corporation within such time as the Minister considers reasonable and the bank shall sell or dispose of such shares within the time prescribed therefor by the Minister."

(*d*) Strike out subclause (6) on page 54 and renumber the present subclauses (4) to (8) on page 54 as subclauses (6) to (9) respectively; and

(*e*) Strike out line 32 on page 55 and substitute therefor the following:

"province;

(c) "foreign corporation" means a corporation incorporated outside Canada; and

(d) "trust or loan corporation" means a Canadian corporation that carries on the business of a trust company within the meaning of the *Trust Companies Act*, or the business of a loan company within the meaning of the *Loan Companies Act* and that accepts deposits from the public."

Clause 77

(*a*) In subclause (2) strike out the words and figures "in any financial year of the bank commencing after the 31st day of October, 1966," in lines 38 and 39 at page 55.

(*b*) Strike out subclauses (5) and (6) at page 56 an dsubstitute the following therefor:

"(5) The bank shall not issue bank debentures dated more than sixty days before the date of the issue of the debentures; but this subsection does not apply to a debenture issued in exchange for or in replacement of one that has the same stated maturity and that is not then being redeemed or paid.

(6) The bank shall not issue bank debentures if, as a result of the issue, the aggregate principal amount of its bank debentures outstanding that have a stated maturity after the end of the financial year of the bank in which the issue is made, would exceed the lesser of

(a) an amount equal to one-half of the total of the paid-up capital stock and rest account of the bank at the time of the issue; or

(*b*) the amount obtained by multiplying the total of the paid-up capital stock and rest account of the bank at the time of the issue by the number of financial years of the bank completed after the 31st day of October, 1965, and dividing the product obtained by ten."

Clause 88

(*a*) Strike out lines 35 to 40 on page 69 and substitute the following:

"(5) Notwithstanding subsection (2) and notwithstanding that a notice of intention by a person giving security upon property under this section has been registered pursuant to this section, where, under the *Bankruptcy Act*, a receiving order is made against, or an assignment is made by, such person,"; and

(*b*) Strike out paragraph (*b*) of subclause (5) and substitute therefor the following:

"(*b*) claims of

(i) a grower of perishable products of agriculture that are direct products of the soil for money owing by a manufacturer to the grower for such products that were grown by him on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment, or

(ii) a producer of dairy products for money owing by a manufacturer to the producer for such products that were produced on land owned or leased by him and that were delivered to the manufacturer during the period of six months next preceding the making of such order or assignment,

to the extent of seven thousand five hundred dollars of the amount of the claims of the grower or producer therefor or the total amount of his claims therefor if such amount is seven thousand five hundred dollars or less",

Clause 91

(*a*) Strike out lines 36 to 39, inclusive, on page 74 and substitute therefor the following:

"(*a*) for the period commencing on the coming into force of this Act and ending on the 31st day of December, 1967, seven and one-quarter per cent; and

(*b*) for any part of an interest period commencing on or after the first day of January, 1968, one";

(*b*) Strike out subclause (4) on page 75 and substitute therefor the following:

"(4) Where a loan or advance referred to in subsection (2) is made for a fixed term by the bank in one interest period and is repayable in whole or in part in a later interest period, the maximum rate of interest or rate of discount that the bank may charge on the loan or advance is that prescribed by subsection (3) for the interest period in which the loan or advance is made notwithstanding the maximum rate of interest or rate of discount prescribed for later interest periods.";

(*c*) Strike out lines 22 to 24, inclusive, on page 75 and substitute therefor the following:

"Canada or of an equity of redemption therein or of an assignment of or mortgage on the interest of a lessee thereof;";

(*d*) Strike out lines 12 to 18, inclusive, on page 76 and substitute therefor the following:

"period of three months ending after the 31st day of December, 1966, is less than five per cent, subsections (2) to (8) of this section, subsection (1) of section 93, section 112 and subsection (1) of section 151 expire

(*a*) on the 31st day of December, 1967, if the last month of such period ends before the 31st day of December, 1967, or

(*b*) on the fifteenth day of the month next following the last month of such period, if such period ends on or after the 31st day of December, 1967,

but without affecting any loan or advance made for a fixed term in respect of which a rate of interest or rate of discount has been charged before that day."; and

(*e*) Strike out line 20 on page 76 and substitute therefor the following:

"(8) of this section and subsection (1) of section 93 expire shall be given by proclamation of"

Clauses 92 and 93

(*a*) Immediately after line 22 on page 76 insert the following:

"92. (1) In subsections (2) to (4),

(*a*) "cost of borrowing" means, in relation to a loan or advance,

(i) the interest or discount thereon, and

(ii) any charges in connection therewith that are payable by the borrower to the bank or to any person from whom the bank receives any part of such charges directly or indirectly;

(*b*) "credit" means an arrangement for obtaining loans or advances; and

(*c*) "prescribed" means prescribed by regulations made under this section.

(2) Where, after the coming into force of this subsection, the bank grants to a person a credit in respect of loans or advances repayable in Canada or makes to a person a loan or advance repayable in Canada, the cost of borrowing as calculated and expressed in accordance with subsection (3), shall be disclosed by the bank, or otherwise as prescribed, to such person in the manner prescribed and at the time when the credit is granted or the loan or advance is made otherwise than under a credit, as the case may be; but this subsection does not apply in respect of any class of loans or advances that are prescribed as not being subject to its provisions.

(3) The cost of borrowing shall be calculated, in the manner prescribed, on the basis of all obligations of the borrower being duly fulfilled, and shall be expressed as a rate per annum and, under the circumstances prescribed, as an amount in dollars and cents.

(4) The Minister may make regulations

(*a*) respecting the manner in which the cost of borrowing shall be disclosed to a borrower;

(*b*) respecting the manner of calculating the cost of borrowing;

(*c*) respecting the circumstances under which the cost of borrowing is to be expressed also as an amount in dollars and cents;

(*d*) specifying any class of loans or advances that are not to be subject to the provisions of subsection (2); and

(*e*) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(5) The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer, nor, except by express agreement between the bank and the borrower, shall the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

(6) Subsections (1) to (4) shall come into force six months after the coming into force of this Act or on such earlier day as the Governor in Council may fix by proclamation.";

(*b*) Renumber clause 92 on page 76 as subclause (1) of clause 93 and renumber subclause (1) of clause 93 on page 76 as subclause (2);

(*c*) Strike out line 1 on page 77 and substitute therefor the following:

"(3) Nothing in subsection (2) shall be con-"; and

(*d*) Strike out lines 6 to 9, inclusive, on page 77.

Clause 97

Strike out line 24 on page 80 and substitute therefor the following:

"the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Clause 101

Strike out lines 43 to 45, inclusive, on page 82 and substitute therefor the following:

"resolution carried by not less than two-thirds of the votes cast by the shareholders present in person or represented by proxy at the meeting, the"

Clause 122

In subclause (2) strike out lines 11 to 22, inclusive, on page 90 and substitute therefor the following:

"months.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be made in accordance with such Act.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank; but the call and any further call thereafter is recoverable from him as if no forfeiture had taken place."

Clause 124

Strike out lines 5 to 8, inclusive, on page 91 and substitute therefor the following:

"assets;

(*d*) the indebtedness evidenced by a bank debenture is subordinate in right of payment to the prior payment in full of the deposit liabilities of the bank and such other liabilities of the bank as are mentioned in that debenture or in any document under which it was issued; and

(*e*) the amount of any penalties for which the bank is liable shall be a last charge upon the assets of the bank."

Clause 138

Strike out line 8 on page 95 and substitute therefor the following:
"is liable to a penalty of ten thousand dollars."

Clause 145

Strike out lines 7 and 8 on page 97 and substitute therefor the following:
"sions of that paragraph is subject to a penalty of one thousand dollars a day for each day in which the violation"

Clause 150

Strike out line 35 on page 98 and substitute therefor the following:
"otherwise authorized by an Act of the Parliament of Canada."

Clause 151

Strike out clause 151 on page 98 and substitute therefor the following:

"151. (1) Every bank that violates the provisions of section 91 is guilty of an offence and liable on summary conviction or on conviction upon indictment to a fine not exceeding one thousand dollars, and every person who, being an officer or employee of the bank, violates the provisions of section 91 is guilty of an offence and liable on summary conviction to a fine not exceeding five hundred dollars.

(2) Every bank that violates the provisions of subsection (2) or subsection (5) of section 92 is liable to a penalty of one thousand dollars in respect of each violation."

Clause 157

Strike out line 13 on page 101 and substitute therefor the following:
"against this Act; but this subsection does not apply where such use is required by law and is confined to a statement contained in a prospectus that a corporation is the holder of shares of the capital stock or evidences of indebtedness of a bank."

Clause 158

(*a*) Strike out line 15 on page 101 and substitute therefor the following:
"section 53 or subsection (2) of section 56 is guilty of an offence and liable on summary"; and

(*b*) Strike out line 19 on page 101 and substitute therefor the following:
"violation of any provision of section 53 or subsection (2) of section 56 is guilty of an"

Clause 162

Strike out clause 162 on page 102 and substitute therefor the following:

"162. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

(2) Section 6 and this section shall come into force, and section 6 of the *Bank Act* Chapter 48 of the Statutes of Canada, 1953-54, is repealed, on the day that this Act is assented to."

(3) Section 54 and subsection (6) of section 56 shall come into force three months after this Act comes into force."

Schedule A

Under the appropriate headings, insert the following at the end of Schedule A:

"Bank of Western Canada	Banque de l'Ouest Canadien	$ 25,000,000	$10 Winnipeg
Bank of British Columbia	Banque de Colombie Britannique	$100,000,000	$10 Vancouver"

Schedules M, N, O, P and Q

Strike out and substitute therefor the following:

SCHEDULE M

(Section 103)

Return of Assets and Liabilities
of the ——————————Bank
as at ——————————19——
(In thousands of dollars)

ASSETS

1. Gold coin and bullion .....$
2. Other coin in Canada .....
3. Other coin outside Canada .....
4. Notes of and deposits with Bank of Canada .....
5. Government and bank notes other than Canadian .....
6. Deposits with banks, in Canadian currency .....
7. Deposits with banks, in currencies other than Canadian .....
8. Cheques and other items in transit, net .....
9. Treasury bills of Canada, at amortized value .....
10. Other securities issued or guaranteed by Canada maturing within three years, at amortized value .....
11. Securities issued or guaranteed by Canada not maturing within three years, at amortized value .....
12. Securities issued or guaranteed by a province, at amortized value
13. Securities issued or guaranteed by a municipal or school corporation in Canada, not exceeding market value .....
14. Securities of other Canadian issuers, not exceeding market value
15. Securities of issuers other than Canadian, not exceeding market value .....

16. Mortgages and hypothecs insured under the National Housing Act, 1954 .....
17. Day, call and short loans to investment dealers and brokers, in Canadian currency, secured .....
18. Day, call and short loans to investment dealers and brokers, in currencies other than Canadian, secured .....
19. Loans to a province, in Canadian currency .....
20. Loans to a municipal or school corporation in Canada, in Canadian currency, less provision for losses .....
21. Other loans in Canadian currency, less provision for losses ....
22. Other loans in currencies other than Canadian, less provision for losses .....
23. Bank premises at cost, less amounts written off .....
24. Securities of and loans to a corporation controlled by the bank
25. Customers' liability under acceptance, guarantees and letters of credit, as per contra .....
26. Other assets .....

Total assets .....$

LIABILITIES

1. Deposits by Canada, in Canadian currency .....$
2. Deposits by a province, in Canadian currency .....
3. Deposits by banks, in Canadian currency .....
4. Deposits by banks, in currencies other than Canadian .....
5. Personal savings deposits payable after notice, in Canada, in Canadian currency .....
6. Other deposits payable after notice, in Canadian currency ....
7. Other deposits payable on demand, in Canadian currency ....
8. Other deposits, in currencies other than Canadian .....
9. Advances from Bank of Canada, secured .....
10. Acceptances, guarantees and letters of credit .....
11. Other liabilities .....
12. Debentures issued and outstanding .....
13. Capital paid up .....
14. Rest account .....
15. Undivided profits at latest financial year end .....

Total liabilities .....$

SUPPLEMENTARY INFORMATION

Aggregate amount of loans to directors and firms of which they are members and loans for which they are guarantors .....$

Amount in currencies other than Canadian included in

Asset 8	Asset 10	Asset 11	Asset 12	Asset 13	Asset 14
$	$	$	$	$	$ .....

Branch returns antedating the late day of the month used in the preparation of this return:

Branch ..... Date of return

Controlled banking corporations whose assets and liabilities are included in this return .....

SCHEDULE N

(Section 60(2)(*a*))

Statement of Assets and Liabilities
of the .....Bank
as at October 31, 19.....

ASSETS

1. Cash and due from banks .....$
2. Cheques and other items in transit, net .....
3. Securities issued or guaranteed by Canada, at amortized value
4. Securities issued or guaranteed by a province, at amortized value
5. Other securities, not exceeding market value .....
6. Day, call and short loans to investment dealers and brokers, secured .....
7. Other loans, including mortgages, less provision for losses ....
8. Bank premises at cost, less amounts written off .....
9. Securities of and loans to a corporation controlled by the bank
10. Customers' liability under acceptances, guarantees and letters of credit, as per contra .....
11. Other assets .....

$

LIABILITIES

1. Deposits by Canada .....$
2. Deposits by a province .....
3. Deposits by banks .....
4. Personal savings deposits payable after notice, in Canada, in Canadian currency .....

5. Other deposits .....
6. Advances from Bank of Canada, secured .....
7. Acceptances, guarantees and letters of credit .....
8. Other liabilities .....
9. Accumulated appropriations for losses .....
10. Debentures issued and outstanding .....
11. Capital paid up .....
12. Rest account .....
13. Undivided profits .....

$

NOTE: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE O

(Section 60(2)(b))

Statement of Revenue, Expenses and Undivided Profits
of the ..... Bank
for the financial year ended October 31, 19.....

Revenue

1. Income from loans .....$
2. Income from securities .....
3. Other operating revenue .....
4. Total revenue .....

Expenses

5. Interest on deposits and bank debentures .....
6. Salaries, pension contributions and other staff benefits ....
7. Property expenses, including depreciation .....
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience .....
9. Total expenses .....
10. Balance of revenue .....
11. Appropriation for losses .....
12. Balance of profits before income taxes .....
13. Provision for income taxes relating thereto .....
14. Balance of profits for the year .....
15. Dividends .....

16. Amount carried forward .....
17. Undivided profits at beginning of year .....
18. Transfer from accumulated appropriations for losses .....

19. Transferred to Rest account .....
20. Undivided profits at end of year .....$

NOTE: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE P

(Section 60(2)(c))

Statement of Accumulated Appropriations for Losses
of the ..... Bank
for the financial year ended October 31, 19.....

1. Accumulated appropriations at beginning of year
   General ..... Tax-paid ..... Total .....$
2. Appropriation from current year's operations .....
3. Loss experience on loans less provision included in other operating expenses .....
4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market .....
5. Other profits, losses and non-recurring items, net .....
6. Provision for income taxes .....
7. Transferred to undivided profits .....

8. Accumulated appropriations at end of year
   General ..... Tax-paid ..... Total .....$

NOTE: Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.

SCHEDULE Q

(Section 106)

Return of Revenue, Expenses and Other Information
of the ..... Bank
for the financial year ended October 31, 19.....
(In thousands of dollars)

Revenue

1. Income from loans .....$
2. Income from securities .....
3. Other operating revenue .....

4. Total revenue .....

Expenses

5. Interest on deposits and bank debentures .....
6. Salaries, pension contributions and other staff benefits .....
7. Property expenses, including depreciation .....
8. Other operating expenses, including provision for losses on loans based on five-year average loss experience .....

9. Total expenses .....

Supplementary Information

10. Provision for income taxes .....
11. Dividends to shareholders .....
12. Loss experience on loans, securities and other investments less provision included in other operating expenses .....

13. Leaving for shareholders' equity and accumulated appropriations for losses .....
14. Capital contributions from shareholders .....

15. Net additions to shareholders' equity and accumulated appropriations for losses .....
16. Allocated to:
    - Undivided profits .....
    - Rest account .....
    - Capital paid up .....
    - General appropriations .....
    - Tax-paid appropriations .....

Amendments to Bill C-223, An Act respecting Savings Banks in the Province of Quebec

Clause 6

Strike out clause 6 on page 3 and substitute the following therefor:

"6. Subject to this Act,

(*a*) if Parliament sits on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the 1st day of July, 1977, and no longer; and

(*b*) if Parliament does not sit on at least twenty days during the month of June, 1977, the bank may carry on the business of banking until the sixtieth sitting day of Parliament next thereafter, and no longer."

Clause 10

In subclause (1) strike out paragraph (*g*) on page 4 and substitute therefor the following:

"(*g*) the remuneration of the chairman of the board, the president, vice-presidents and other directors;"

Clause 16

Strike out line 7 on page 6 and substitute therefor the following:

"(2) The directors may elect by ballot from their number a chairman of the board of directors.

(3) A person elected to an office under this"

Clause 19

Strike out subclauses (1) and (2) on page 6 and substitute therefor the following:

"19. (1) The chairman of the board, if any, or in his absence, the president, or in their absence, a vice-president, shall preside at all meetings of the directors.

(2) Where at any meeting of the directors, the chairman of the board, if any, the president and all vice-presidents are absent, one of the directors present, chosen to act *pro tempore*, shall preside."

Clause 20

Strike out line 33 on page 6 and substitute therefor the following:

"fixed by a shareholders' by-law, to be paid to the chairman of the board, the president,"

Clause 24

In subclause (1) strike out line 24 on page 8 and substitute therefor the following:

"City and District Savings Bank is three million"

Clause 27

Strike out line 46 on page 9 and substitute therefor the following:

"a date, not earlier than the thirtieth day after the day on"

Clauses 28 to 30

(*a*) Renumber subclauses (1) and (2) of clause 28 on page 10 as clauses 28 and 29, respectively;

(*b*) Strike out line 14 on page 10 and substitute therefor the following:

"disposal of shares under section 28 exceeds the price per";

(*c*) Renumber clause 29, as amended, on page 10 as clause 30;

(*d*) Strike out the reference to section 26 or 28 in line 35 on page 10 and substitute therefor "sections 26, 28 or 29"; and

(*e*) Strike out clause 30 on page 10.

Clause 29

Strike out lines 39 and 40 on page 10 and substitute therefor the following:

"give his post office address and this shall appear in the stock books in connection with"

Clause 44

Strike out line 35 on page 15 and substitute therefor the following:

"mission in accordance with the claim; but nothing in this subsection shall be construed to prevent the bank from refusing to record or give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Clause 45

(*a*) Strike out lines 11 and 12 at page 16 and substitute therefor the following:

"right, but does not include an official or corporation performing a function or duty in"

(*b*) Strike out lines 37 to 40, inclusive, at page 17 and substitute therefor the following:

"bank;

(*f*) both shareholders are agents of Her Majesty in right of Canada or officials or corporations performing on behalf of Her Majesty in such right a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1);

(*g*) both shareholders are agents of Her Majesty in right of the same province or officials or corporations performing on behalf of Her Majesty in right of that province a function or duty in connection with the administration, management or investment of any fund or moneys referred to in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1); or

(*h*) both shareholders are associated within the meaning of paragraphs (*a*) to (*g*) with the same shareholder."

(*c*) Strike out line 33 on page 18 and substitute therefor the following:

"virtue of paragraph (*h*) of subsection (2) by"

Clause 46

In subclause (2) strike out line 21 on page 19 and substitute therefor the following:

"of a share of the capital stock of the bank to any person, including, without restricting the generality of the foregoing, an official or corporation mentioned in clause (B) of subparagraph (i) of paragraph (*a*) of subsection (1) of section 45,"

Clause 47

In subclause (3) strike out line 17 on page 22 and substitute therefor the following:

"(*c*) an official or corporation administering, managing or investing"

Clause 49

(*a*) Strike out subclause (2) on page 25;

(*b*) Renumber subclauses (3) to (8) on pages 25 to 27, inclusive, as subclauses (2) to (7) respectively;

(*c*) Strike out line 27 on page 27 and substitute therefor the following:

"(*b*) an official or corporation administering, managing or investing"; and

(*d*) Strike out the figure (6) on line 34 on page 27 and substitute therefor the figure "(5)".

Clause 53

(*a*) Renumber subclauses (1), (2), and (3) as subclauses (2), (3) and (4), respectively;

(*b*) Insert the following as subclause (1):

"53. (1) The financial year of the bank shall end on the expiration of the 31st day of October in each year."

(*c*) Strike out the word "and" in line 48 on page 28;

(*d*) Strike out line 8 on page 29 and substitute therefor the following:

"earned in the financial year; and

(*c*) a statement of accumulated appropriations for losses of the bank for the financial year, showing the information in the form specified in Schedule C and such additional information and particulars as in the opinion of the directors are necessary to present fairly the amount of appropriations available to meet losses other than those for which specific provisions have been made."

(*e*) Strike out line 17 on page 29 and substitute therefor the following:

"Schedules A, B and C."

Clause 55

(*a*) Strike out subclause (11) of clause (55) and substitute therefor the following:

"(11) The auditors shall make a report to the shareholders on the statement of assets and liabilities, the statement of revenue, expenses and undivided profits and the statement of accumulated appropriations for losses of the bank to be submitted by the directors to the shareholders under section 53."

(*b*) Strike out lines 46 and 47 on page 30 and substitute therefor the following:

"of the financial year, its revenue, expenses and undivided profits for the year and its accumulated appropriations for the year, and shall include such remarks as they"

Clauses 80 and 81

(*a*) Immediately after line 9 on page 41 insert the following:

"80. (1) In subsections (2) to (5),

(*a*) "cost of borrowing" means, in relation to a loan or advance,

(i) the interest or discount thereon, and

(ii) any charges in connection therewith that are payable by the borrower to the bank or to any person from whom the bank receives any part of such charges directly or indirectly;

(*b*) "credit" means an arrangement for obtaining loans or advances; and

(*c*) "prescribed" means prescribed by regulations made under this section.

(2) Where, after the coming into force of this subsection, the bank grants to a person a credit in respect of loans or advances repayable in Canada or makes to a person a loan or advance repayable in Canada, the cost of borrowing, as calculated and expressed in accordance with subsection (3), shall be disclosed by the bank, or otherwise as prescribed, to such person in the manner prescribed and at the time when the credit is granted or the loan or advance is made otherwise than under a credit, as the case may be; but this subsection does not apply in respect of any class of loans or advances that are prescribed as not being subject to its provisions.

(3) The cost of borrowing shall be calculated in the manner prescribed, on the basis of all obligations of the borrower being duly fulfilled, and shall be expressed as a rate perannum and, under the circumstances prescribed, as an amount in dollars and cents.

(4) The Minister may make regulations

(*a*) respecting the manner in which the cost of borrowing shall be disclosed to a borrower;

(*b*) respecting the manner of calculating the cost of borrowing;

(*c*) respecting the circumstances under which the cost of borrowing is to be expressed also as an amount in dollars and cents;

(*d*) specifying any class of loans or advances that are not to be subject to the provisions of subsection (2); and

(*e*) respecting such other matters or things as may be necessary to carry out the purpose of this section.

(5) The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer, nor, except by express agreement between the bank and the borrower, shall the making of a loan or advance be subject to a condition that the borrower maintain a minimum credit balance with the bank.

(6) Subsections (1) to (4) shall come into force on the day that subsections (1) to (4) of section 92 of the *Bank Act* come into force."

(*b*) Renumber subclause (1) of clause 80 on page 41 as subclause (1) of clause 81;

(*c*) Strike out lines 25 and 26 on page 41 and renumber subclause (1) of clause 81 as subclause (2) of clause (81);

(*d*) Strike out line 37 on page 41 and substitute therefor the following:

"(3) Nothing in subsection (2) shall be con-"; and

(*e*) Strike out lines 42 to 45, inclusive, on page 41 and substitute therefor the following:

"(4) Subsection (1) expires on the day that subsection (1) of section 93 of the *Bank Act* expires."

Clause 86

Strike out line 35 on page 45 and substitute therefor the following:

"the transmission in accordance with the claim; but nothing in this section shall be construed to prevent the bank from refusing to give effect to a transmission until there has been delivered to the bank such documentary or other evidence of or in connection with the transmission as it may deem requisite."

Clause 100

Strike out line 36 on page 49 and substitute therefor the following:

"declaration in the form set out in Schedule D, signed"

Clause 103

Strike out lines 3 to 14 on page 51 and substitute therefor the following:

"months.

(3) In the event of proceedings being taken under any Act for the winding-up of the bank in consequence of the insolvency of the bank, any calls on shareholders made thereafter shall be in accordance with such Act.

(4) Failure on the part of a shareholder to pay any call referred to in this section when due constitutes a forfeiture by the shareholder of all claim in or to any part of the assets of the bank, but the call and any further call thereafter is recoverable from him as if no forfeiture had taken place."

Clause 120

Strike out clause 120 and substitute therefor the following:

"120. (1) Every bank that violates the provisions of section 79 is guilty of an offence and liable on summary conviction or on conviction upon indictment to a fine not exceeding one thousand dollars, and every person who, being an officer or employee of the bank, violates the provisions of section 79 is guilty of an offence and liable on summary conviction to a fine not exceeding five hundred dollars.

(2) Every bank that violates the provisions of subsection (2) or subsection (5) of section 80 is liable to a penalty of one thousand dollars in respect of each such violation.

(3) Subsection (1) expires when subsection (5) of section 91 of the *Bank Act* expires."

Clause 131

Strike out clause 131 on page 58 and substitute therefor the following:

"131. (1) Except as otherwise expressly provided in this Act, this Act shall come into force on a day to be fixed by proclamation of the Governor in Council.

(2) Section 6 and this section shall come into force and section 6 of the *Quebec Savings Banks Act*, Chapter 41 of the Statutes of 1953-54, is repealed on the day that this Act is assented to.

(3) Section 47 and subsection (5) of section 49 shall come into force three months after this Act comes into force."

Schedule A

(*a*) Strike out items 6, 10, 11, 12 and 14 on page 59 and substitute therefor the following:

"6. Securities issued or guaranteed by a province, at amortized value .....
10. Other mortgages and hypothecs, less provision for losses .
11. Loans otherwise secured, less provision for losses .....
12. Loans without security, less provision for losses .....
14. Bank premises at cost, less amounts written off." .....

and

(*b*) Strike out item 2 on page 60 and substitute therefor the following:
"2. Deposits by a province, in Canadian currency..."

Schedule B

Strike out Schedule B and substitute therefor the following:

"SCHEDULE B

(Section 53(2)(b))

Statement of Revenue, Expenses and Undivided Profits of the ..... Bank for the financial year ended October 31, 19.....

Revenue

Income from loans	$
Income from securities	
Other operating revenue	
Total revenue	

Expenses

Interest on deposits .....
Salaries, pension contributions and other staff benefits .....
Property expenses, including depreciation .....
Other operating expenses, including provision for losses on loans based on five-year average loss experience .....

Total expenses .....

Balance of revenue .....
Appropriation for losses .....

Balance of profits before income taxes .....
Provision for income taxes relating thereto .....

Balance of profits for the year .....
Dividends .....

Amount carried forward .....
Undivided profits at beginning of year .....
Transfer from accumulated appropriations for losses .....

Transferred to Rest account .....
Undivided profits at end of year .....$

NOTE: *Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.*"

Schedule C

(*a*) Insert immediately before Schedule C on page 62 the following:

"SCHEDULE C

(Section 53(2)(c))

Statement of Accumulated Appropriations for Losses
of the ..... Bank
for the financial year ended October 31, 19.....

1. Accumulated appropriations at beginning of year
General ..... Tax-paid ..... Total .....$
2. Appropriation from current year's operations .....
3. Loss experience on loans less provision included in other operating expenses .....
4. Profits and losses on securities, including provisions to reduce securities other than those of Canada and a province to values not exceeding market .....
5. Other profits, losses and non-recurring items, net .....

6. Provision for income taxes .....
7. Transferred to undivided profits .....
8. Accumulated appropriations at end of year
   General ..... Tax-paid ..... Total .....$

NOTE: *Titles should be deleted where there are no amounts to be reported thereunder. Omit cents.*"

(*b*) Strike out the word "SCHEDULE C" on page 62 and substitute therefor the following:

"SCHEDULE D

Declaration Required by section 100."

A copy of the Minutes of Proceedings and Evidence relating to Bills C-190, C-222 and C-223 (Issues No. 17 to No. 29, inclusive; No. 31 to No. 36, inclusive; No. 38 to No. 45, inclusive; No. 47 to No. 53, inclusive) is appended.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, February 28, 1967.
(108)

The Standing Committee on Finance, Trade and Economic Affairs met *in camera* at 8.10 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Addison, Cameron (*Nanaimo-Cowichan-The Islands*), Chrétien, Clermont, Comtois, Flemming, Gray, Irvine, Lind, Mackasey, Monteith, More (*Regina City*), Tremblay, Wahn—(14).

The Committee considered a draft of the Twenty-first Report to the House and made a minor amendment.

On motion of Mr. Wahn, seconded by Mr. Clermont, the Report was approved, as amended. (See page 3589).

The Committee then considered a draft of the Twenty-second Report to the House and drew up a number of comments and recommendations. The draft report was approved. (See pages 3590-3618).

Ordered: That the Chairman present the Reports to the House.

At 9.30 p.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

NOTE:

In accordance with the resolution passed at the meeting of December 8, 1966, briefs received from the undermentioned, who have not appeared before the Committee, are printed herein as appendices:

S. A. Bensh, Nanaimo, B.C.	Appendix VV
The Canadian Chamber of Commerce	Appendix WW
County Savings and Loan Corporation	Appendix XX
Lloyd H. Denning, A.P.A.	Appendix YY
James M. Dever, Montreal	Appendix ZZ
H. Latulippe, M.P.	Appendix AAA
Alex Mills, C.L.U.	Appendix BBB
Prof. Milton Moore, Dalhousie University	Appendix CCC

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APPENDIX VV

Submitted by: S. A. Bensh, Nanaimo, B.C.

It is generally acknowledged that the Finance Minister and the Bank Governor are the chief monetary guardians. Presuming they are, the country could be faced with a most dreadful calamity. Wrong decisions made by these two men can cause millions of people to suffer and pay the penalty for their mistake, if these two men intrusted with such colossal power do not know, or do not care what a calamity they can inflict by their misconception. Concerning economy, a slowing down concept is a falacy. It is either a move ahead or an actual slowing down, which is a setback, a depression causing harm with practically no remedy.

Unbelievable, still Governments are making such decisions and causing crippling defects. The crumbling economy of the western world indicates it. Countries like Italy, West Germany, U.K., U.S.A., and the country usually mentioned as the show place of sound economy, Sweden, are no better off either, and now even the International Monetary Bank admits there is a financial crisis approaching, not only in the western world but in every country. The demand for money seems unlimited, beggar and corporation big-shot alike demand more and more of the vanishing money with its diminishing buying power, lacking in stability. The demand is justified because the financing method of the approaching automation is completely wrong. The automation system completely transforms production methods, while monetary policy and financing methods remain unchanged and become more reactionary with every day.

It should be realized that the reactionary method freezing wages and prices completely will not prevent inflation, on the contrary it will not only enhance inflation but will add to it poverty as well.

Canada, the richest and most advanced country concerning automation, with her developed natural resources produces agriculture, products, and food in abundance and exports large quantities of it. Therefore the advice by anyone to anyone to tighten their belt in any respect is the most cruel and shameful conjecture.

The automation system, which has completely transformed the output of products, has proven that freight charges are no more unavoidable necessary expenses, but instead they constitute a complete loss, because when added to the production costs they curtail the necessary buying power, which buying power cannot be recovered with more intensive production nor by more efficient methods with the same amount of manpower. Therefore, freight rates upset sound economy. Consequently more taxes than necessary have to be collected to make up for the shortage created thereby.

Freight charges and automation are adverse to each other by their nature. Unit by unit freight charges in many instances are greater than the output cost of the material shipped. Long haul, short haul develops a clash within shipment causing disadvantage between market places. The damage caused is irrepairable, yet scarcely recognized. Nevertheless, this in itself adds to the decay of our economy.

In Canada, with its vast territory so sparsely populated the long haul by transportation has presented a terrific clash which faces the automated time applied by industry with respect to cost.

In one area there is a shortage causing austerity and starvation. In another area food and material is rotting with no trade possible, the balance of power of freight charges is instrumental in forbidding normal trade in such cases. The freight cost payment is the balance of power which makes the balance of payment so extremely difficult between countries.

All in all freight rates have the unlimited capacity to make the price of products not only unreasonable but unbearably inflated.

The colossal mistake—freight rate charges are out of all proportion, when even the lowest rate would be harmful. Yet the 10 per cent and even higher raise is accepted by the Government even though it is definitely inflationary and destructive. But the justified 5 per cent raise by Stelco is opposed. How inconsistent and harmful an attitude!

Inflation caused by freight rates is duplicated by the financing method and money supply. An attempt is usually made to curb inflation by raising interest rates which are already out of proportion. Raised interest rates do not curb inflation, but rather enlarge it, it undermines and lowers the buying potentiality of the money which is already inflated. For example, a private home construction costs $15,000.00 financed with 7 per cent interest, which, with its endless payments almost equals the cost of construction. Auto financing exceeds 10 per cent, but doubles the rate of destructive capacity considering the rapid drop in its price within a couple of years. Installment buying is processed with 20 per cent carrying charges. It clarifies and demonstrates clearly how inflation is caused by double action with inflated prices and with inflated money.

Construction, automobile financing and installment buying, the main items of our economy are exposed to a savage exploitation to an alarming degree. High interest rates are the sign of insolvency poverty and not the sign of wealth and prosperity. It developes by improper governing ability. The question arises, how a government can carry on with such a black spot in their governing ability.

Consequently, the main factor of the economy, supply and demand is ill-functioning; the vehement demand for more and more money and higher wages, and the colossal amount of foreign capital invasion proves it without doubt.

The monetary and fiscal policy of the Federal Government is imposing a terrific burden on the provinces financing ability with the inflated prices and inflated money. Cost sharing is impossible without loss to the provinces as long as the Federal Government, with its sole authority remedies the economic process. Under such circumstances it is unfair to turn down the provinces justified claim. It is a misconception to postpone medicare, to postpone the raise of old age assistance, not only because they are necessary, but the most important fact is curbing the inflation which is possible only with public funds to eliminate the discriminative damage done with high interest and freight costs by the private sector of the economy.

Freight cost in its present private status of the economy is a heavy destructive burden, but transferred to the public sector it will become the most beneficial factor creating wealth and prosperity.

The course of the currency flow carrying the inflated money, measures up, computes and registers automatically and independently the actual loss in every pocket regardless of how small or how large the activity of the individual pocket may be. Do not follow witch doctors advice and practices foolishly made by finance minister and bank governor.

The right decision now could make the difference between growth or blight, between independence and freedom or reaction and tyranny by bringing back the system of the poor with austerity instead of wealth and prosperity for everyone, which is the real guideline of the present overwheming machine output.

To rectify the grave trouble, the refinancing method of the Central Bank and by the Federal Government is the simplest way; and it is considered the only way to eliminate the destructive capacity of the high interest rate and restore the necessary equilibrium between supply and demand. It is unavoidable, and should be remedied urgently before it is too late.

Freight cost and high interest rate acts as a balance of power, therefore upsets the necessary equilibrium between supply and demand.

It should be realized with raised interest rates you do not curb inflation, contrary if you bring down and curb high interest rates then inflation will cease.

Facing automation a permanent conflict exists between the government fiscal policy and that of the monetary system. The government utilizes currency in accordance with the automation trend as an exchange medium, collects taxes and distributes it at par with no return to the taxpayer. In contrast the Central Bank, Bank Loan Co. utilize the currency wrongfully as a very expensive commodity with added high interest rate repayable, when the market is flooded with man and material. In consequence the individual taxpayer is squeezed between excessive taxation and very expensive money supply, so destroying the paying ability of the taxpayer and simultaneously reducing the taxcollecting capacity of the government.

The overwhelming export trade wasting away the resources of future generations is useless as long as the federal government postpones unreasonable the necessary reforms, and is flooding the country with printed money. The quantity of Banknotes in circulation proves the Central Bank is flooding the country with printed funny money.

The error is unexcelled in dramatic magnitude. The flood of funny money is proven to be necessary facing automation, but the Central Bank is supplying the wrong channels, therefore it creates poverty and unemployment instead of wealth and prosperity.

R.R. No. 3,
Nanaimo, B.C.,
October 18, 1966

To The Standing Committee on Finance, Trade,
and Economic Affairs,
House of Commons,
Ottawa.

Hon. Gentlemen:

Based on my analysis which I outlined, I respectfully request you, the Honourable Gentlemen of the Standing Committee, to consider the following vital factors concerning revision of the Bank Act, in view of facing automation which has completely transformed our production method. In consequence bring the financing method of the government and that of the monetary system in accordance with the present automation need.

The vital factors to be revised are as follows:

1. To consider and realize the existing split and the impact it makes on our economy with two conflicting sides in permanent clash. The public sector and the private sector of the economy concerning their financing method utilizing currency. Previous to automation the private sector of the economy has been the dominating factor, presently with the actual transformation the public sector has become the dominating one.

2. In consequence of that issuing of the money supply must be revised to establish an equilibrium between the sectors. The public sector and the actual industry should receive priority against the outgrowth of the financial institutions in the private sector.

3. Revision of the amortization method, the inflationary high interest rate should not be maintained but corrected by adequate financing method by the Central Bank.

4. To achieve lower mortgage interest rate the floating and recalling of Government Bonds must be revised. With proper adjustment the interest rate will drop automatically. The changing of channels are necessary to gain release of money need, not high interest rate.

5. Consider the revision of the quantity of Banknotes in circulation. Issuing as at present printed money or re-establishing sound money by changing channels. Changing the flow from the overflooded damaging one to the ones which are running dry.

6. To consider the possibility of changing the price of gold for the transition period to stimulate the dollar foreign exchange rate if necessary.

7. To consider the refinancing method on a gradual scale.

8. To consider and realize taxation facing automation is no more a govern-business only, but it became the most vital distributing factor of buying power and raising the velocity of money in circulation to counteract inflation and create wealth and prosperity by absorbing the overwhelming machine output with diminishing human participation.

9. To consider under such circumstances the vital difference, taxing the tax subject on a uniform scale or exempting some not on a sliding scale but on a reversed method to eliminate subsidy.

10. To consider the vital importance transferring the actual balance of power, the paying for freight cost from private sector to the public sector of the economy.

11. To consider and realize, freight transportation and road building, Medicare and Old Age Pension, education and religion are a subsequent row to distribute buying power with collected taxes.

12. To consider the tariff rates levied on imported goods as necessary revenue sources, to protect the taxpayers paying ability, indicating the futility of common market. The vital question remains to uphold this balancing potential of the existing balance of payment or abandon one part of the own production system to slide into austerity and create poverty. Is the common market functioning well between the provinces with different natural resources and reciprocally possible? Inflation is as much rampant in the common market countries as improper the internal financing method develops with the two destructive forces at large.

12a. To consider and insist, that a sound proportion should exist between goods and services, by the distributed buying power with tax-dollars. Favouring domestic product is important as money spent on goods distributes buying power from hand to hand many times. In consequence it raises the velocity of the money which counteracts inflation automatically. Or could be supplied as a stimulator to attain reciprocal foreign trade so important both ways.

13. To revise the cost sharing method between the federal and provincial revenue sources eliminating the present discriminatory method burdening the provinces.

14. To consider establishing a department to investigate, to calculate, to measure up on a scientific scale the actual facts to discharge a proper deal in financing method and to govern the Central Bank in accordance with the present need. To eliminate discriminatory false assumptions. The present economic council is unfit for such undertaking as it does not possess the necessary information which would be needed from the Central Bank as well from the finance department of the Government

I attempted to follow the counter balancing method instead of the futile controlling effort.

I hope you will find the points outlined in my brief appropriate for investigation.

Finally Gentlemen, the opportunity is yours to consider or dismiss my appeal.

Obediently yours,

APPENDIX WW

THE CANADIAN CHAMBER OF COMMERCE
300 St. Sacrement St., Montreal, Que.

October 31, 1966.

Mr. Herb Gray,
Chairman,
Finance, Trade and Economic Affairs Committee,
House of Commons,
Ottawa, Canada.

Dear Mr. Gray:

At the recent Annual Meeting of The Canadian Chamber of Commerce the following policy was adopted:

> "Monetary policy should be directed towards maintaining credit conditions adequate to encourage reasonable business expansion without permitting inflationary trends to dissipate the hard-won gains already achieved and in prospect. More careful consideration should be given to the Report of the Royal Commission on Banking and Finance. Many of the Commission's recommendations designed to increase freedom, flexibility, and competition in the financial system would also increase the effectiveness of monetary policy in times of inflation. The Chamber's view is that the 6 per cent bank rate ceiling should be removed as recommended by the Royal Commission on Banking and Finance."

It would be appreciated if you would arrange to have this policy brought to the attention of the Finance, Trade and Economic Affairs Committee in connection with their review of Bill C-222.

Yours sincerely,
Henry Valle.

APPENDIX XX

October 17th, 1966

BRIEF TO THE COMMONS COMMITTEE ON BANKING

Regarding Revisions of the Bank Act

To: The Members of the Commons Committee on Banking
By: County Savings and Loan Corporation.

Introduction

County Savings and Loan Corporation is registered under the Loan and Trust Corporation's Act of Ontario and is more specifically a Savings and Loan Corporation. It received its charter in November of 1964 and has established two branches in Metropolitan Toronto. It, like most corporations registered under the Trust and Loan Acts of the various Provinces, invests a large proportion of its funds in Mortgages on Real Estate. (Its other assets, for the most part, include Government and Government guaranteed securities.)

General

The purpose of this Brief is to outline, in general, this corporation's understanding of the present functions of the various Canadian Financial Institutions and to comment on what it believes might be done to help improve these functions for the benefit of those institutions on the one hand, and the Canadian borrowing and lending public, on the other.

Canadian Financial Institutions

The Canadian Financial Institutions are basically the Chartered Banks, the Quebec Savings Banks, the Trust and Loan Corporations, the Caisses Populaires and Credit Unions, the Sales Finance & Consumer Loan Companies, the Insurance and Investment Companies and Pension Plans. Of these only the first three can borrow directly from and lend directly to the public at large and as such are in a unique position. In recent years the Chartered Banks and the Trust and Loan Corporations have each attempted directly and/or indirectly to participate in what till then had been their respective private domains. This for the most part, has been successful. The Chartered Banks also have, in recent years, aggressively entered the Consumer lending field and have taken away a large percentage of this business from the Consumer Loan Companies. (Only recently a high government official mentioned that the Chartered Banks are the main providers of Consumer Loans.) This has been beneficial both to the Chartered Banks and the borrowing public, the latter being able to borrow at lower rates. It has, however given the Chartered Banks a marked advantage over the Trust and Loan Corporations, for as the Chartered Banks have increased their assets in this more lucrative field, they have (and will more so as these assets become a larger proportion of their total asets), been able to pay higher rates for the money they borrow, attracting funds away from other borrowers. This problem became serious in the United States, where the "Chartered Banks" have been able to compete more effectively in the creation of debt, being very active in the

Consumer lending field where returns were high, whilst the Savings and Loan Associations, whose lending powers do not permit Consumer lending, have been losing ground rapidly being unable to compete with the rates paid by the Banks. The United States Government recently passed Legislation controlling to a certain extent, the maximum rate Banks can pay for certain forms of debt. Federal and Provincial Legislation in Canada however, differs from their respective counterparts in the United States; our suggested approach to this inequity here in Canada (where the situation might also become serious) will be outlined below.

The Trust and Loan Corporations

The Trust and Loan Corporations have long been the main source of funds for mortgages especially in the residential Real Estate field, the demand for which, including non-residential mortgages, has been growing at an ever increasing rate since the end of the second World War. In the past, most of their funds were acquired through the sale of long-term debt. However, in recent years, the Trust and Loan Corporations have been competing more aggressively with the Chartered Banks for the demand deposit form of debt. It is clear therefore that if the problem mentioned in the preceding paragraph were allowed to develop, the ability of the Trust and Loan Corporations to provide these mortgage funds would be greatly reduced, as has been demonstrated recently in the United States, even though the Banks in the United States are permitted to lend by way of mortgages.

Some of the main recommendations of the report of the Royal Commission on Banking and Finance

1. Removal of restrictions on Interest rates charged by the Chartered Banks.

2. Gradual permission given the Chartered Banks to enter the mortgage field.

3. Freeing the N.H.A. lending rate, allowing it to find its own level.

4. Raising the permitted lending limits of value of Real Estate up to which institutional mortgage lenders can lend.

5. Raising of the amounts covered by the Small Loan's Act.

6. The Bank Act to be extended to cover a wider group of institutions which are now engaged in the business of banking.

7. To permit the Savings Banks and Trust Loans Corporations to enter the Commercial and Personal Consumer loan field.

8. All banking institutions to be required to maintain uniform cash reserves ratios against their short term liabilities.

9. All institutions doing simlar business should be equitably treated within the system of monetary control.

10. Prohibitions on agreements between banking institutions with respect to lending *and* borrowing rates.

11. Certain restrictions as to the percentage of ownership that banking institutions may have in any one company.

12. Disapproval of the practice of bank officers or employees, serving as directors of commercial concerns.

13. That the anomaly in present law, which prohibits share ownership of one Canadian Chartered Bank by another, but is silent on foreign bank ownership, be removed and the provision be made for the establishment of foreign bank agencies.

14. Deposit Insurance.

Our recommendations

We have attempted above to outline some of the functions of the two main groups of banking institutions with which we are concerned, the Chartered Banks and the Trust and Loan Corporations. We have also outlined some of the main recommendations of the Royal Commission on Banking and Finance, as they pertain to those two banking groups. We would now like to express our views on these recommendations and as far as possible, show good and valid reasons for those views.

Firstly, we are pleased to see that the proposed revisions to the Bank Act include many of the Porter Report recommendations, however, we would have liked to see the adoption of all the recommendations. We realize that this is very difficult to achieve all at once, due to the variety of factors involved, and therefore sincerely hope that this will be done in future revisions.

Discussing the above mentioned recommendations, one at a time, we will make specific comments on each one, keeping in mind not only how advantageous any might be to the Trust and Loan Corporations, but also the benefit each might provide for the Canadian borrowing and lending public.

1. *Removal of restrictions on interest rates*

We feel that this will serve to permit the Chartered Banks to lend to a wider range of borrowers and enable them to charge in accordance with the borrower's credit standing. We feel strongly, however, that the other groups of banking institutions (namely the Trust and Loan Corporations) also be permitted to extend Commercial and Personal Consumer loans, otherwise, the Chartered Banks being able to lend part of their funds at much higher rates than the Trust and Loan Corporations (who are restricted to the mortgage field for their higher returns), will be able to pay a higher rate for their debt and make the situation between the two groups inequitable. Furthermore, if the Chartered Banks are permitted to compete in the mortgage lending field, they will have taken away even that edge from the Trust and Loan Corporations, leaving them in a rather prejudicial position.

Some Trust and Loan Corporations may claim that they do not want this privilege. This may be because they do not *want* to compete with the Chartered Banks for the Consumer Loan business, or do not have to. The Porter Report does emphasize that many Corporations governed by similar regulations have followed their own fields of specialization. We suggest therefore, that those Trust and Loan Corporations, that do not wish to delve into the Consumer Loan field, are free not to do so. This was true when Trust and Loan Corporations started aggressively to compete for the demand-type of debt. Some of the Trust and Loan Corporations only entered that field very recently, before which they felt they did not have to, although they *were* permitted to do so.

The permission of entering the Consumer loan field, if given the Trust and Loan Corporations, will also have the effect of reducing and keeping down the rates at which personal consumer loans are made, which in our estimation *is in the best interests of the Canadian Borrowing Public.*

2. *Gradual permission to the chartered banks to enter the mortgage field.*

We approve of this, as again, it tends to keep interest rates down and provides more funds for a segment of the economy which often seems to be in short supply for those funds. It also serves the Construction Industry, one of our leading Canadian Industries. We do emphasize, however, that this should be accompanied by permission to the Trust and Loan Corporations to participate in the Consumer Lending field for reasons expressed previously, otherwise the situation would be unfair.

3. *Free the N.H.A. lending rate, allowing it to find its own level.*

We give this our full approval, adding that this would help to create a secondary market in N.H.A. mortgages and increase the money available for this type of investment, with the obvious benefits to the Canadian home owner.

4. *Raising the permitted lending limits of value of Real Estate up to which institutional mortgage lenders can lend.*

This federally and in most Provinces (if not all) has already been implemented.

5. *Raising of the amounts covered by the small loans act.*

We approve, in that it tends to lower the rates that the Canadian borrowing public will have to pay for debt.

6. *The Bank Act to be extended to cover a wider group of institutions which are now engaged in the business of banking.*

We would like to see this implemented, so that a uniform control over all banking institutions can be achieved.

7. *To permit the savings Banks and Trust and Loan Corporations to enter the commercial and personal consumer loan field.*

As we have previously indicated, we feel strongly that the Trust and Loan Corporations be permitted to render this service which the Chartered Banks are becoming more active in each consecutive year and taking up a larger percentage of the market in that field, principally because they are able to lend at a far lower rate than the Consumer Loan Finance Companies. Again, it seems clear to us that permitting the Trust and Loan Corporations to enter this field is in the interest of the *public in general;* conversely by not doing so, it would, in due course, greatly undermine the Trust and Loan Corporations' ability to compete effectively and fairly for both the demand-type and the longer-term type, of debt.

8. *All Banking institutions to be required to maintain uniform cash reserves ratios against their short term liabilities.*

Although we approve of this recommendation, we do realize the problems involved in implementing it in the present proposed Bank Act revision.

9. *All institutions doing similar business are equitably treated within the system of monetary control.*

Full approval for obvious reasons.

10. *Prohibitions on agreements between banking institutions with respect to lending and borrowing rates.*

Full approval in the public interest.

11. *Certain restrictions as to the percentage of ownership that banking institutions may have in any one company.*

No comment.

12. *Disapproval of the Practice of Bank Officers or Employees Serving as Directors of Commercial Concerns.*

No Comment.

13. *That the Anomaly in Present Law, which Prohibits Share Ownership of one Canadian Chartered Bank by Another, but is silent on Foreign Bank Ownership be Removed and the Provision be made for the Establishment of Foreign Bank Agencies.*

No Comment.

14. *Deposit Insurance.*

Although this is not in fact a Recommendation of the Commission, we feel that such Insurance would be to the benefit of the lending public, as events subsequent to the Commission's Report have shown. Deposit Insurance has been in effect in the United States for many years and has in our opinion, proved beyond a doubt, a benefit to the depositing public. We feel that it is essential, if we are to have an effective, strong and consistent financial banking field. Any one failure can have serious repercussions on the whole economy, again, as was the case recently.

Since the advent of some problems a financial institution had recently, the lending public has lost some confidence in the non-chartered banks. This is having and could further have, serious repercussions on these institutions. On the one hand the non-chartered or near banks can be as conservative as possible, but still be at a definite disavantage in their attempts to acquire debt, and on the other hand the lenders should have some form of protection against unforseen circumstances, be it with chartered banks or non-chartered banks. It seems to us that with Deposit Insurance the Government will have protected the public to the fullest possible extent. This Deposit Insurance should be extended to all

Institutions accepting deposits from the public, together with uniform monetary controls and cash reserves. Deposit Insurance should go as far as can be expected in giving the public the utmost possible protection and yet affording the greatest amount of equality of freedom of movement to all segments of the banking field.

Summary.

To end our brief, we would like to quote a short paragraph out of the Report of the Royal Commission on Banking and Finance, that best summarizes our attitudes:

> "We have, in summary, favoured a more open and competitive banking system—carefully and equitably regulated under uniform legislation but not bound by restrictions which impede the response of the institutions to new situations, enforce a particular pattern of narrow specialization or shelter some enterprises from competitive pressures. We believe that this framework will encourage creativity and efficiency and offer the public the widest possible range of choice of financial services, while reducing the danger of unregulated institutions springing up to serve real needs which others are prevented from meeting. Some institutions may attempt to offer a full range of services and others may choose to specialize in a variety of ways, but the legislation will allow all of them—and such new institutions as are qualified—to adapt to new opportunities and situations created by changing public preferences and needs".

APPENDIX YY

129 Queen St.,
Dunnville, Ontario,
November 10, 1966.

The Chairman,
Banking Committee,
Parliament Buildings,
Ottawa, Ontario.

Dear Sir:

Some banks have recently introduced an extraordinary scheme to evade the maximum 6% rate of interest on bank loans.

This device demands a borrowing customer leave 10% of the loan on deposit with the bank. This is held in a special account. I have in mind a bank customer who required a loan of $6,000.00 for his business. It was necessary he borrow $6,600,00, on which he will pay 6% interest, however he only receives the use of $6,000.00 He will be paying 6.6%.

This appears to me a most glaring evasion of law and I would like to know how it could be permitted.

I will appreciate your comments, at your convenience.

Yours very truly,

Lloyd H. Denning, A.P.A.
Public Accountant.

APPENDIX ZZ

Montreal, Que.
September 8, 1966.

Herbert E. Gray, Esq.,
Chairman,
Standing Committee of the House of
Commons on Finance, Trade and Economic Affairs,
Parliament Buildings,
Ottawa, Ontario.

Dear Sir:

I attach hereto a memorandum setting out, for the consideration of your Committee, my thoughts regarding two proposed amendments to the Bank Act. I also include a comment on the granting of a charter to the Western Bank of Canada. I feel that the public should be fully informed as to the reason for this change in government policy, whereby an increase in the number of banks is encouraged, when the trend in recent years has been towards mergers of existing banks.

I have submitted my memorandum to several business associates and I find a general unanimity among them that the points raised therein are deserving of serious thought on the part of your Committee.

Yours very truly,

(Signed) James M. Dever

1. The publishing of details of appropriations for losses on investments and loans required under Section 60 (b) and (c) of the Bank Act is an innovation which is likely to do more harm than good. Apart from such information being of interest to investment analysts in advising their clients to either by or sell bank shares, (a move which they have been urging for some time), it is difficult to determine what good purpose will be served thereby. On the contrary, it is likely that the disclosure of details in respect of the banks' reserves will disturb many people who have always had the utmost confidence in the stability and solvency of our banks. They feel that, like God, the banks move in a mysterious way their wonders to perform and they are quite satisfied with their conduct of affairs as long as their cheques are paid. This comfortable state of mind, whose influence is felt in every sphere of business activity, is bound to be shaken because the published provision for losses may be interpreted as being the amount of losses actually sustained. Furthermore, the proposal to form a Corporation for the purpose of insuring bank deposits might be considered as an indication that the government itself was becoming dubious of the solvency of the banks. For these reasons, it is submitted that the requirements of the above-mentioned sections, insofar as they relate to disclosures regarding reserves, should not be enforced.

2. Section 75(3) empowers a bank to lend money on the security of real or immovable property. This seems like a drastic departure from the traditional role of banks in the lending field. If such loans were confined to the amount of debentures outstanding, there would not be much room for criticism, but to use depositors' money for such purposes weakens the banks' ability to meet the demands of the depositors. Surely the difficulties experienced by banks in the U.S. during the early thirties, attributable to a large extent to mortgage lending, have not been forgotten. Bank loans should be restricted to those of a current nature, leaving all long term loans to other agencies who are not subject to the sudden demands which may be made upon banks.

3. When the Bank of Western Canada was recently granted a charter, it was remarked in the House that Canada needed more banks. This statement seems a trifle strange when one recalls the merger of a few years ago of the Dominion Bank with the Bank of Toronto and Barclays, Imperial Bank with the Canadian Bank of Commerce. When one considers that of 63 banks which were chartered in Canada over the years 12 have failed and the remaining 51 have merged with and now form part of the existing 7 banks, it would indicate that under the Canadian system of branch banking it is only the larger banks which can survive. It would be interesting to speculate on the life expectancy of this new bank or any others which may come into existence whose activities are likely to be confined to isolated areas.

APPENDIX AAA

HOUSE OF COMMONS
CANADA

H. Latulippe
M.P.

Ottawa, Canada, October 25, 1966.

Brief submitted to the Committee on Finance, Trade and Economic Affairs, during *examination of BILL C-222, on the Bank Act*

TO WHOM IT MAY CONCERN:

On several occasions, in my speeches in the House of Commons, I have specifically mentioned that we cannot allow or cause any further increases in the wages of labour or increases in the rates of interest on capital until we have made suitable provision for the vital minimum purchasing power of those persons in Canada who have no income either from working, or from capital.

Every time we increase the wages of labour, every time we increase the income from capital, we are increasing the cost of living in general and eroding the economic position of people having no income and, thus too, of the citizens who are responsible for them.

In other to grasp the importance of this warning, we must realize that today, in 1966, out of a population of 20,000,000 citizens, 7,400,000 have income from working or from capital and that 12,600,000 have no income from capital or working from and are dependant on private citizens or on society in general.

Thus, each time that the cost of living increases as a result of any increase in the wages of labour or of interest on capital, we are eroding the situation of the 12,600,000 dependant Canadian citizens who have no income either from working or from capital.

For example, as regards children under 16, who receive allowances of $6 and $8 per month, amounts set in 1944 and unchanged since that time, these amounts no longer have any significance or any relation with the cost of living in 1966.

The following items will emphasize this point:

Items	1944-45	1966
1. Gross National Product	$11,400,000,000	$56,000,000,000
2. Investments. Capital	1,280,000,000	18,000,000,000
3. Assets of the 8 Banks	6,000,000,000	26,500,000,000
4. Capital—Shares: 800 Companies: ..	7,000,000,000	102,000,000,000
5. Circulation of Cheques	60,000,000,000	520,000,000,000
6. Salaries—Expenses: M.P.'s	4,000	18,000
7. Old Age Pensions	per month 20	75
8. Allowances: Children 0 to 10 years	per month 6	6

When all the items of the national economy have been multiplied by 4, by 8, by 10 and more, the allowances for children under 10, under 16, have remained stationary at $6 and at $8, at the 1944 rate, when the entire population is living in 1966...

These are observations. These are actual facts.
Not opinions... not beliefs.

This clarification is a warning. Why should we continue to encourage increases in the wages of workers or increases in the interest and dividends of capitalists and bankers if we still persist in doing so always at the expense of the little man among our courageous people, those mothers and fathers who, despite an untenable economic situation, still consent to bring up the entire future generation of potential productive adults guaranteeing Canada's survival and prosperity?

Today, the Government is placed sharply and strikingly before two basic cases, where its authority is called upon to make a decisive choice, a choice it should have made long ago, but which it cannot postpone any longer, for any valid reason or pretext.

The Government of Canada is the highest authority in all the country of Canada—over all institutions, all public bodies, all pressure groups, all intermediary bodies, all 8 chartered banks, all 800 larger companies, especially those which make more than $1 million in net profits every year.

One Bank of Canada, 8 chartered banks, 800 large companies, whether they are on the Stock Exchange or not, most of them being headed by one or more of the directors of the 8 chartered banks. This is High Finance, this is High Economic Management in Canada. This is the field of activity for the great leaders of Canada.

One Bank of Canada; 8 chartered banks, 800 companies. This is the great centre of all economic management in Canada.

Either these people are responsible, or they are not. Either these people govern and plan all economic activity in Canada, or they do not govern and plan, but one think is certain, all these people are placed under the direction of the Minister of Finance of Canada, under the direction of the Governor-General in Council, that is, of the Governor-General with the entire Cabinet of the 26 ministers of Canada.

This is the supreme authority of Canada. This is where we must come together, if we hope to strike somewhere to demand administrative reforms or claim urgent and vital readjustments.

The supreme authority cannot be anonymous or irresponsible.

Now, this government, this supreme authority, this Governor-General in Council is soon to allow two major increases in the income of labour and the income of capital. It is soon to remove the ceiling of 6 per cent on interest rates on loans from the 8 chartered banks, on the capital side, and increase the wages of postal workers, on the labour side.

Although the Governor in Council, with his 26 ministers (His Government) may hope to hide behind Joint Committees of Senators, Ministers and Members of Parliament, behind Royal Commissions, behind Economic Councils of Canada, to observe the established, and supposedly democratic, customs, the fact remains that the supreme authority of Canada must make a choice immediately between continuing to run a country with the old obsolete methods or plunging

courageously into the new order which the people await and demand with all their strength, with patience, perseverance and confidence.

Before any increase in interest rates, before any increase in salaries, the primary need in Canada is the readjustment of purchasing power in relation to the vital personal minimum of every dependant fellow citizen who has no income either from his labour or from his capital.

LET US NO LONGER ABUSE AN OVERLY PATIENT PEOPLE LET THE SUPREME AUTHORITY RESUME "ITS AUTHORITY"

Before any increase in the income of capital, before any increase in the wages of labour, our Government, through all its institutions, whether responsible or semi-responsible, should readjust family allowances, first, and all other personal allowances of the 12,600,000 dependant Canadian citizens, who have no income from capital or from labour, but who obviously have their own vital personal right to life and to security.

INCREASE IN THE BANK INTEREST RATE 6 PER CENT CEILING

After the creation of the Bank of Canada, in 1934, the chartered banks lost the right to print their own Bank notes and were obliged to withdraw from circulation those already in existence, at the rate of 10 per cent per year, the balance in the tenth year. This was done and accomplished as required by this law. But the banks kept their right to create credit money on loans or on the purchase of bonds, albeit by accepting some legalized restriction such as maintaining reserves of at least 5 per cent of their deposits by the Public and respecting an interest rate no higher than 7 per cent.

When the Bank and Finance Acts were revised in 1944, the interest ceiling was reduced to 6 per cent, and, moreover, Banks were not to pay dividends of more than 8 per cent on their bank shares. They were permitted to continue making inner reserves, undeclared, secret and untaxed, in their annual reports to the shareholders, the public and the Government. When the Bank and Finance Acts were reviewed in 1954, the interest ceiling remained at 6 per cent but the 8 per cent ceiling on bank shares was removed. Today, the banks pay dividends of between approximately 20 per cent and 30 per cent. Royal Bank; 4 times 75 cents per term, $3.00 a year on a $10 share. Bank of Montreal: 4 times 55 cents: $2.20 plus 17½ cents special dividend: total $2.37½, for a $10 share. Which means: 23.75 per cent.

When the Government applies ceilings on interest or on bank dividends in this way, it must be for solid reasons, for serious motives and not because of a school child's whim. Why then remove ceilings which were established for solid and serious reasons and motives?

As for the bank reserves of 5 per cent, which rose to 8 per cent and which they want to reduce to 7 per cent, the same observation applies. As we might expect, all the effects of these changes, which seem to have no importance for the public and laymen in national economy and financial science, work for good or bad repercussions, usually bad, if we hope to protect the rights of the citizens,

first of all, before those of the rich, the learned and the powerful who govern and administer the great institutions of Canada.

Why did they remove the 8 per cent ceiling on dividends for bank shares, why are they now removing the 6 per cent rate as the maximum rate for bank loans? Why?

No, Gentlemen! We must cease this dangerous game, even if it is advantageous for the small part of the population which owns, which knows and which directs. For the wealth, knowledge and power that you possess are not for yourselves alone, but for all the people who offer you their arms, their time, their talents, to receive yours in exchange, at a suitable time and place, and in a suitable proportion.

This is life in society. The one for the other, and not all the others for a few who have wealth, talent, knowledge and power.

Every increase in the rates of interest on capital, every increase in the wages of labour do nothing but cause increases in the cost of living, even for all those 12,600,000 citizens who have neither a job nor capital. This is the painful side of a national economic situation in which we see the gap growing wider every day between the rich, the poor and between those who enjoy surpluses and those who struggle with deficits, between those who accumulate capital and those who sink deeper into perpetual debts, even Governments.

And with debts, the interest rate is the primary factor. In order to understand this completely, see the following tables, which are very simple, very concrete, very easy, but essential to a comprehension of the problem before us:

Let us suppose that we have to build the Jacques-Cartier Bridge, in Montreal, at a cost of $20,000,000.

We can borrow $20,000,000 from bank finance at 5 per cent for 40 years, by a debenture which is to be repaid in a single installment at the end of this period.

We can borrow $20,000,000 from the Bank of Canada, without interest, to be repaid in 5 per cent installments over a period of 20 years, as the Bridge is a public non-profit and non-income producing commodity, built with Canadian men and materials.

Striking Example: Bank of Canada: Rate 2 per cent

When the Bank of Canada was founded, in 1934, it set its interest rate at 2 per cent for Treasury Bills and loans to chartered banks. This rate of 2 per cent remained stable from 1934 until 1956, even though it passed through times of depression, war and the great post-war boom.

And then in 1956, the Government completed its fiscal year's operations with a very large surplus, after a series of smaller annual surpluses. But wasn't it pleasant to see the Federal Government end up with surpluses? Then they spoke of inflation, and of unemployment, and they undertook a series of measures intended to correct the deficit policy they felt was more suited to the Nation's progress.

The Bank of Canada for its part began speculating on the interest rate after the fine stability it had observed and practised since it was founded, more than 20 years before.

The Bank of Canada's rate then rose from 1½ per cent to 6.41 per cent in the same year. Federal Government Bonds, through the well-known conversion of $6,400,000,000 of War Bonds, were renewed at rates of 4 to 5 per cent instead of the 2½ to 3 per cent they paid during the war. Today, we see governments, provinces and municipalities and large companies, school boards, public buildings, religious and parish corporations issuing debentures at rates which sometimes exceed 7 per cent and even 8 per cent. Why is money so scarce? Why are there these prohibitive interest rates on money, on funds which usually enjoy the right of spontaneous generation?

Where will this dizzy spiralling of interest rates end? Is someone finally going to try and stop it, or is it preferable to allow the revenue of capital to rise in this way forever, when the people go without the essentials, go without the income of labour, go without decent incomes for all citizens who are too young, too ill or too old to earn their living?

	Bank of Canada Paying 5% per year	Bank and Finance Interest 5% per year
Creation of Debt of	$20,000,000	$20,000,000
Annual repayment 5%	1,000,000 cap.	
Annual interest 5%		1,000,000 int.
After 10 years	10,000,000 cap.	10,000,000 int.
After 20 years	20,000,000 cap.	20,000,000 int.
After 40 years		40,000,000 int.
After 40 years, the entire capital is due		20,000,000 int.
In the two cases TOTAL COST ..	20,000,000	60,000,000

After 40 years, the debenture for $20,000,000 is due, but since the Government cannot yet pay it, even after having paid $40,000,000 in interest, at 5 per cent per year, it must renew its debt for $20,000,000 on the new terms of the creditors, the capitalists, bankers or others, on the new terms of the debenture market, in the language of the Economists, perhaps at 7 per cent, who knows where the ambition of these people who have made money and profits their God, their Golden Calf, will stop, particularly and especially, if they know that it is the people who pay...both the interest...and the capital.

Nothing further need be said, I believe, to show clearly all the importance of the interest on spontaneously generating capital, in the processes of our financial, economic and political, Canadian, capitalist, orthodox economy.

This however, is why, in the question which concerns us, in the study of removing the 6 per cent ceiling on the maximum rate for bank loans, we can conclude that, if we must continue to juggle interest in order to maintain the established system, at least, with the knowledge we have today, we should ensure that the problem does not get worse, we should take steps, set up new barriers and particularly, not enlarge those which already exist, i.e. the 6 per cent ceiling.

We can talk indefinitely about this juggling of interest and its harmful consequences on the national economy and on the welfare of each of the individuals who make up this nation. Since I am speaking to the Ministers and

Members of Parliament of Canada, I am sure that they will be able to draw their own conclusions from these very precise and very simply expressed facts which I have just drawn to their attention.

1st Resolution

To be practical, as regards our examination of B-222, on the Chartered Bank Act, I suggest that we maintain the ceiling of 6 per cent as the maximum rate of bank interest, if we cannot reduce it, in order to impose some legal limit on boundless ambitions, in all fields of private enterprise, of trade in general. To finance governments, municipalities, school boards, universities, the Bank of Canada will lend the necessary capital, without interest, demanding simply an annual repayment plus administrative costs, until total payment.

2nd Resolution

As for the amount of bank reserves in relation to their deposits, which was 5 per cent from 1933 on, which was recently increased to 8 per cent and which it has been suggested might be lowered to 7 per cent, *I suggest* that we raise the proportion of these reserves gradually, by 10 per cent per year, and that in 10 years, these reserves reach 100 per cent of the deposits, with the result that the banks will gradually lose their right to create new debts, as in 1933 they lost their right to print their own bank notes.

IN THE NAME OF THE PEOPLE THE BANK OF CANADA WILL MAKE USE OF ITS ENTIRE PRIVILEGE TO ISSUE ALL THE MONEY NECESSARY TO THE ECONOMY OF CANADA AND OF ALL CANADIANS.

Let us not forget that we are here as the legislators for the entire Nation, that we ought to achieve national economic equilibrium between all the citizens of Canada, between all the families of Canada, between all the institutions of Canada, so that every person, family and institution may guide itself by the same classic formula, recognized by all:

"INCOME. . .EXPENSES AND PROFITS"

These basic principles can and must act as the guide in the new orientation of *today's economic policy,* which can no longer be run *by the rules of the past.* This new orientation must take place. IT IS OUR DUTY TO SEE, TO UNDERSTAND . . . AND TO ACT ACCORDINGLY.

Henry Latulippe, M.P.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

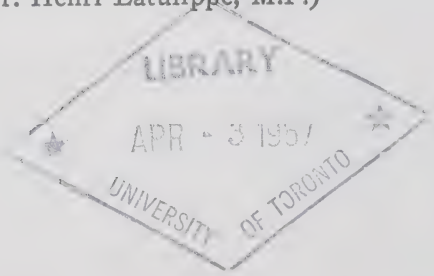
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

REPRINT OF APPENDIX AAA

to Minutes of Proceedings and Evidence No. 53

(Mr. Henri Latulippe, M.P.)



ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25833—1

Extract from the Minutes of Proceedings, Thursday, March 16, 1967.

The Chairman explained to the Committee that, because of an error, the pages of the brief submitted by Mr. Latulippe had been reproduced in the wrong order when it was printed as Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence. The Committee agreed that, in fairness to Mr. Latulippe, this situation should be corrected.

Therefore, on motion of Mr. Monteith, seconded by Mr. Irvine,

Resolved,—That the Committee cause to be printed the same number as originally printed of Issue No. 53, that is to say, 1500 copies in English and 700 copies in French, of Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence.

Attest

Dorothy F. Ballantine,
Clerk of the Committee.

25833—1½

APPENDIX AAA

HOUSE OF COMMONS
CANADA

H. Latulippe
M.P.

Ottawa, Canada, October 25, 1966.

Brief submitted to the Committee on Finance, Trade and Economic Affairs, during *examination of BILL C-222, on the Bank Act*

TO WHOM IT MAY CONCERN:

On several occasions, in my speeches in the House of Commons, I have specifically mentioned that we cannot allow or cause any further increases in the wages of labour or increases in the rates of interest on capital until we have made suitable provision for the vital minimum purchasing power of those persons in Canada who have no income either from working, or from capital.

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In order to grasp the importance of this warning, we must realize that today, in 1966, out of a population of 20,000,000 citizens, 7,400,000 have income from working or from capital and that 12,600,000 have no income from capital or working from and are dependant on private citizens or on society in general.

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This is the supreme authority of Canada. This is where we must come together, if we hope to strike somewhere to demand administrative reforms or claim urgent and vital readjustments.

The supreme authority cannot be anonymous or irresponsible.

Now, this government, this supreme authority, this Governor-General in Council is soon to allow two major increases in the income of labour and the income of capital. It is soon to remove the ceiling of 6 per cent on interest rates on loans from the 8 chartered banks, on the capital side, and increase the wages of postal workers, on the labour side.

Although the Governor in Council, with his 26 ministers (His Government) may hope to hide behind Joint Committees of Senators, Ministers and Members of Parliament, behind Royal Commissions, behind Economic Councils of Canada, to observe the established, and supposedly democratic, customs, the fact remains that the supreme authority of Canada must make a choice immediately between continuing to run a country with the old obsolete methods or plunging

courageously into the new order which the people await and demand with all their strength, with patience, perseverance and confidence.

Before any increase in interest rates, before any increase in salaries, the primary need in Canada is the readjustment of purchasing power in relation to the vital personal minimum of every dependant fellow citizen who has no income either from his labour or from his capital.

LET US NO LONGER ABUSE AN OVERLY PATIENT PEOPLE LET THE SUPREME AUTHORITY RESUME "ITS AUTHORITY"

Before any increase in the income of capital, before any increase in the wages of labour, our Government, through all its institutions, whether responsible or semi-responsible, should readjust family allowances, first, and all other personal allowances of the 12,600,000 dependant Canadian citizens, who have no income from capital or from labour, but who obviously have their own vital personal right to life and to security.

INCREASE IN THE BANK INTEREST RATE 6 PER CENT CEILING

After the creation of the Bank of Canada, in 1934, the chartered banks lost the right to print their own Bank notes and were obliged to withdraw from circulation those already in existence, at the rate of 10 per cent per year, the balance in the tenth year. This was done and accomplished as required by this law. But the banks kept their right to create credit money on loans or on the purchase of bonds, albeit by accepting some legalized restriction such as maintaining reserves of at least 5 per cent of their deposits by the Public and respecting an interest rate no higher than 7 per cent.

When the Bank and Finance Acts were revised in 1944, the interest ceiling was reduced to 6 per cent, and, moreover, Banks were not to pay dividends of more than 8 per cent on their bank shares. They were permitted to continue making inner reserves, undeclared, secret and untaxed, in their annual reports to the shareholders, the public and the Government. When the Bank and Finance Acts were reviewed in 1954, the interest ceiling remained at 6 per cent but the 8 per cent ceiling on bank shares was removed. Today, the banks pay dividends of between approximately 20 per cent and 30 per cent. Royal Bank; 4 times 75 cents per term, $3.00 a year on a $10 share. Bank of Montreal: 4 times 55 cents: $2.20 plus 17½ cents special dividend: total $2.37½, for a $10 share. Which means: 23.75 per cent.

When the Government applies ceilings on interest or on bank dividends in this way, it must be for solid reasons, for serious motives and not because of a school child's whim. Why then remove ceilings which were established for solid and serious reasons and motives?

As for the bank reserves of 5 per cent, which rose to 8 per cent and which they want to reduce to 7 per cent, the same observation applies. As we might expect, all the effects of these changes, which seem to have no importance for the public and laymen in national economy and financial science, work for good or bad repercussions, usually bad, if we hope to protect the rights of the citizens,

first of all, before those of the rich, the learned and the powerful who govern and administer the great institutions of Canada.

Why did they remove the 8 per cent ceiling on dividends for bank shares, why are they now removing the 6 per cent rate as the maximum rate for bank loans? Why?

Striking Example: Bank of Canada: Rate 2 per cent

When the Bank of Canada was founded, in 1934, it set its interest rate at 2 per cent for Treasury Bills and loans to chartered banks. This rate of 2 per cent remained stable from 1934 until 1956, even though it passed through times of depression, war and the great post-war boom.

And then in 1956, the Government completed its fiscal year's operations with a very large surplus, after a series of smaller annual surpluses. But wasn't it pleasant to see the Federal Government end up with surpluses? Then they spoke of inflation, and of unemployment, and they undertook a series of measures intended to correct the deficit policy they felt was more suited to the Nation's progress.

The Bank of Canada for its part began speculating on the interest rate after the fine stability it had observed and practised since it was founded, more than 20 years before.

The Bank of Canada's rate then rose from 1½ per cent to 6.41 per cent in the same year. Federal Government Bonds, through the well-known conversion of $6,400,000,000 of War Bonds, were renewed at rates of 4 to 5 per cent instead of the 2½ to 3 per cent they paid during the war. Today, we see governments, provinces and municipalities and large companies, school boards, public buildings, religious and parish corporations issuing debentures at rates which sometimes exceed 7 per cent and even 8 per cent. Why is money so scarce? Why are there these prohibitive interest rates on money, on funds which usually enjoy the right of spontaneous generation?

Where will this dizzy spiralling of interest rates end? Is someone finally going to try and stop it, or is it preferable to allow the revenue of capital to rise in this way forever, when the people go without the essentials, go without the income of labour, go without decent incomes for all citizens who are too young, too ill or too old to earn their living?

No, Gentlemen! We must cease this dangerous game, even if it is advantageous for the small part of the population which owns, which knows and which directs. For the wealth, knowledge and power that you possess are not for yourselves alone, but for all the people who offer you their arms, their time, their talents, to receive yours in exchange, at a suitable time and place, and in a suitable proportion.

This is life in society. The one for the other, and not all the others for a few who have wealth, talent, knowledge and power.

Every increase in the rates of interest on capital, every increase in the wages of labour do nothing but cause increases in the cost of living, even for all those 12,600,000 citizens who have neither a job nor capital. This is the painful side of a national economic situation in which we see the gap growing wider every day

between the rich, the poor and between those who enjoy surpluses and those who struggle with deficits, between those who accumulate capital and those who sink deeper into perpetual debts, even Governments.

And with debts, the interest rate is the primary factor. In order to understand this completely, see the following tables, which are very simple, very concrete, very easy, but essential to a comprehension of the problem before us:

Let us suppose that we have to build the Jacques-Cartier Bridge, in Montreal, at a cost of $20,000,000.

We can borrow $20,000,000 from bank finance at 5 per cent for 40 years, by a debenture which is to be repaid in a single installment at the end of this period.

We can borrow $20,000,000 from the Bank of Canada, without interest, to be repaid in 5 per cent installments over a period of 20 years, as the Bridge is a public non-profit and non-income producing commodity, built with Canadian men and materials.

	Bank of Canada Paying 5% per year	Bank and Finance Interest 5% per year
Creation of Debt of	$20,000,000	$20,000,000
Annual repayment 5%	1,000,000 cap.	
Annual interest 5%		1,000,000 int.
After 10 years	10,000,000 cap.	10,000,000 int.
After 20 years	20,000,000 cap.	20,000,000 int.
After 40 years		40,000,000 int.
After 40 years, the entire capital is due		20,000,000 cap.
In the two cases TOTAL COST ..	20,000,000	60,000,000

After 40 years, the debenture for $20,000,000 is due, but since the Government cannot yet pay it, even after having paid $40,000,000 in interest, at 5 per cent per year, it must renew its debt for $20,000,000 on the new terms of the creditors, the capitalists, bankers or others, on the new terms of the debenture market, in the language of the Economists, perhaps at 7 per cent, who knows where the ambition of these people who have made money and profits their God, their Golden Calf, will stop, particularly and especially, if they know that it is the people who pay...both the interest...and the capital.

Nothing further need be said, I believe, to show clearly all the importance of the interest on spontaneously generating capital, in the processes of our financial, economic and political, Canadian, capitalist, orthodox economy.

This however, is why, in the question which concerns us, in the study of removing the 6 per cent ceiling on the maximum rate for bank loans, we can conclude that, if we must continue to juggle interest in order to maintain the established system, at least, with the knowledge we have today, we should ensure that the problem does not get worse, we should take steps, set up new barriers and particularly, not enlarge those which already exist, i.e. the 6 per cent ceiling.

We can talk indefinitely about this juggling of interest and its harmful consequences on the national economy and on the welfare of each of the individuals who make up this nation. Since I am speaking to the Ministers and

Members of Parliament of Canada, I am sure that they will be able to draw their own conclusions from these very precise and very simply expressed facts which I have just drawn to their attention.

1st Resolution

To be practical, as regards our examination of B-222, on the Chartered Bank Act, I suggest that we maintain the ceiling of 6 per cent as the maximum rate of bank interest, if we cannot reduce it, in order to impose some legal limit on boundless ambitions, in all fields of private enterprise, of trade in general. To finance governments, municipalities, school boards, universities, the Bank of Canada will lend the necessary capital, without interest, demanding simply an annual repayment plus administrative costs, until total payment.

2nd Resolution

As for the amount of bank reserves in relation to their deposits, which was 5 per cent from 1933 on, which was recently increased to 8 per cent and which it has been suggested might be lowered to 7 per cent, *I suggest* that we raise the proportion of these reserves gradually, by 10 per cent per year, and that in 10 years, these reserves reach 100 per cent of the deposits, with the result that the banks will gradually lose their right to create new debts, as in 1933 they lost their right to print their own bank notes.

IN THE NAME OF THE PEOPLE THE BANK OF CANADA WILL MAKE USE OF ITS ENTIRE PRIVILEGE TO ISSUE ALL THE MONEY NECESSARY TO THE ECONOMY OF CANADA AND OF ALL CANADIANS.

Let us not forget that we are here as the legislators for the entire Nation, that we ought to achieve national economic equilibrium between all the citizens of Canada, between all the families of Canada, between all the institutions of Canada, so that every person, family and institution may guide itself by the same classic formula, recognized by all:

"INCOME...EXPENSES AND PROFITS"

These basic principles can and must act as the guide in the new orientation of *today's economic policy,* which can no longer be run *by the rules of the past.* This new orientation must take place. IT IS OUR DUTY TO SEE, TO UNDERSTAND...AND TO ACT ACCORDINGLY.

Henry Latulippe, M.P.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

APPENDIX BBB

Toronto, Ontario

September 30, 1966.

Mr. Herb Gray, Chairman,
Banking and Finance Committee,
House of Commons,
Ottawa, Ontario.

Re: Revisions to the Bank Act

Dear Sir:

I understand that your Committee has extended an invitation to anyone who would like to make a submission on the above subject.

One change which has not been included in the draft Bill, but which I believe should be incorporated in the new Act, is the *deletion* of the following words:

". . .act as agent for any insurance company or for any person in the placing of insurance, nor shall the bank"

from the first three lines of subsection (4) of Section 75 of the present Bank Act and from subsection (6) of Section 75 of the proposed new Bank Act.

The Minister of Finance has stated that the Government is anxious to encourage the banks and near-banks to compete more actively among themselves and with other financial institutions. In my opinion, the above wording has undoubtedly prevented the banks in the past from developing, in cooperation with some of the life insurance companies, plans and services which would permit them to compete more effectively for peoples' savings and investment dollars.

To date there has been some evidence of the banks and some of the life insurance companies cooperating to offer to the public services (savings plans and loans) which include a life insurance feature. However, I believe that these services have been developed *in spite of* the above wording and certainly not because of it and that a broader range of bank services incorporating desirable life insurance features could and would be developed, to the benefit of all concerned, if this wording was deleted.

Conversely, I believe that if the above wording is left in the new Act—it will almost certainly continue to act as a damper upon the type of competition which the Minister has urged and which, in my opinion, would prove very beneficial in the long run for all concerned.

I consider this a very important matter. Accordingly, if it is necessary for me to appear in person to make this submission, or if it would be desirable for me to do so—in order to answer any questions which Members of your Committee might care to put to me in this regard—I would certainly be prepared to make a special trip to Ottawa for this purpose.

Looking forward to your acknowledgment of receipt of this submission and to receiving your advice concerning the necessity and/or advisability of my appearing before your Committee in person, I remain

Yours very truly,

Alex Mills, C.L.U.

APPENDIX CCC

DOUBTS ABOUT REVISING THE BANK ACT*
MILTON MOORE

MOST CANADIANS MUST NOW KNOW THAT the Minister of Finance plans to amend the Bank Act. He wants to eliminate the 6 per cent ceiling on bank lending charges. In support of this gradual elimination, various arguments have been used in Parliament and outside. Unfortunately, these arguments are less convincing than they seem at first sight. Furthermore, the amendments may be a symptom of an unsatisfactory Government attitude towards monetary policy in general. If so, the public may be misled in the present and disappointed in the future.

It is contended that some persons and some small companies—the relatively poor credit risks—will be able to get cheaper loans under the new arrangements. These are the borrowers who must now go to the small loan companies or go without funds because the banks cannot profitably lend to them at the maximum statutory interest rate. If the banks were free to charge a higher rate, it is said, they would be willing to make some such loans.

It is further reasoned that if the interest ceiling is removed, interest rates in general will fall because the bad risks (who must now go to the small loan companies) will pay lower rates and no one will pay higher rates.

Also, some contend that the banks and the small loan companies will compete more vigorously, reducing rates at least for some categories of borrowers.

Finally, it may seem that credit cannot be rationed properly at present through the price mechanism if the rate of interest—the price of credit—is controlled. Many economists have long thought that, when funds are short, banks do not allocate credit among would-be borrowers solely on the basis of the highest bid (allowing for risk, of course). Credit-worthy borrowers, especially very large companies, are thought to get priority in the banker's office. Under the new arrangements, the companies which get loans during periods of monetary restraints should be those which bid the highest rate of interest to the banks (net of risk).

But I doubt whether the effects of the proposed amendment will be quite so favorable as these four lines of argument suggest.

For one thing, the 6 per cent ceiling is already ineffective both for personal and for commercial loans. By resorting to techniques described below, the effective rate of interest is raised above the ceiling. Since the Federal Government must be aware of these practices, and therefore countenances them, they must be assumed to have its approval.

The banks now charge more than 6 per cent on some classes of personal loans. For example, when a person borrows money for a year, the 6 per cent may be charged on the face value of the loan for a year, although the loan is repaid in equal monthly installments, the last one being due one year from the opening date. The installments are deposited to an amount opened for the purpose and

*Reprinted by courtesy of *The Canadian Forum*.

cumulate there, earning interest at the usual rate paid on the minimum quarterly balance of savings accounts (currently 3 per cent). Thus the effective interest rate is between 9.5 and 11.5 per cent including service charges.

Similarly, the banks can already in effect charge more than 6 per cent on commercial loans. A few years bank, the Canadian banks stopped granting overdrafts—a practice they had apparently long disliked. Instead of allowing overdrafts, banks asked their commercial customers to estimate the amount of credit needed for the period ahead and to take out a loan for that amount. The loan was credited to the borrower's bank account and from time to time drawn down by the amounts which, under the former system, would have produced overdrafts. If the period of the loan is defined as the period during which the customer actually uses the funds (in contrast to leaving it on deposit in his account) the effective interest rate is higher under the loan system than under the overdraft system. Thus, if an individual enterprise or partnership with a doubtful credit rating approaches the bank for a loan, there is some leeway for the bank to stipulate an interest payment which would compensate it for the higher risk of non-payment. To do so, the bank need only require that a larger sum be borrowed than the customer requests and that the excess—a "compensating balance"—be left on deposit in his account. For several months, compensating balances of 10 to 15 per cent have been required on many commercial loans. (In the United States, the standard compensating balance is 20 per cent.

In view of these techniques, the effects of the removal of the ceiling must remain uncertain. Since we are dealing with a situation where interest rates are determined by the forces of price competition only within a range, conventional business practices have a considerable effect and the economist is no better equipped to analyse the probable effects of a change in government regulations than is the businessman or banker. Perhaps the banks would simply be encouraged to charge higher nominal rates in lieu of resorting to the above techniques, if the ceiling were lifted; actual effective rates might not be changed. On the other hand perhaps the main effect would be to raise the effective rates paid by borrowers, both personal and commercial. Especially at this time of extreme monetary tightness, perhaps the least likely outcome would be a decrease in the effective rates, on average.

The analysis which leads to the "favorable" outcomes described above turns on an assumed increase in competition between the banks and small loan companies. It therefore implicitly assumes that there are constraints upon the competition between small loan companies, acceptance corporations, and the like. Such constraints may or may not exist. As for competition between banks and other financial institutions, no one now knows how much would develop under the new arrangements.

The small loan companies say that the main cost of lending to the small marginal borrowers is not the risk of nonpayment, but the high book and collection costs of recapturing a small sum. Some credit unions have recently supported this contention, saying that they could not cover costs with the rates they charged if they had to pay the wages of an ordinary commercial enterprise. Accordingly, one doubts whether the interest rates on very small personal loans to poor credit risks could be much reduced by an enlarged scope of the banks' activities.

This leaves the final possible "favorable" effect of removing the ceiling: that banks would be able to ration credit by the interest rate. But why should a bank run the risk of losing a large client tomorrow just to earn a few more dollars of interest today? In the words of the over worked cliché: nobody says no to General Motors—even if GM offers 6.5 per cent interest and Podunk Knitting Mills offers 9 per cent.

To sum up: any measures which increase flexibility in the money markets, and increase competition therein are desirable. When dealing with customary business practices, however, it is not possible to deduce the effects of changes in regulations with confidence. The net effect of the removal of the six per cent ceiling therefore cannot be predicted.

When the government changes the interest rate ceiling it is changing the institutional framework of the economy. However desirable they may be, such institutional changes are not substitutes for a correct monetary policy. At present one is disturbed by the nagging fear that Ottawa may have become convinced that high interest rates are desirable *per se*.

Given the events of the last decade, it is reasonable to conclude that, starting about 1957, the Bank of Canada, in conjunction with the Government of Canada, has pursued a long-term policy of high interest rates. The chartered banks could hardly be censured if they interpreted the raising of the 6 per cent ceiling as an encouragement to raise the level of interest charges on their loans, as well as to serve marginal borrowers.

At present, most Canadian university economists, and perhaps most government economists, believe that the economic problem of the next several years will be inadequate growth, rather than inflation—in spite of the euphoria of the last two years. If so, a policy of moderate monetary ease is indicated for the coming years.

The level of interest rates also affects the distribution of income and wealth. Though we are not certain that incomes become more unequal when interest rates rise, there is a strong *prima facie* case that this happens. After all, the bulk of borrowing is done by companies and governments. The former recoup higher interest costs by higher prices, transferring some of the interest burden to the very poor. Similarly, the taxes most likely to be raised to provide revenue to cover increasing government debt service costs, also fall to some extent upon the very poor. Accordingly, low interest rates might be favored if we really want to reduce—or to prevent an increase in—the inequality of wealth.

It is to be hoped, therefore, that the Minister of Finance has not been convinced of the desirability of removing the ceiling to bank interest rates mainly by the contention that the level of interest charges would thereby be reduced. It would be even more regrettable if the Minister regards his amendments to the Bank Act as a substitute for a long-run policy of monetary ease—that is, low interest rates. At best, the amendments can effect only a small improvement in institutional arrangements—and that best is not assured.

It is unfortunate that, in the discussions of the matter which I have read, no mention has been made of the valid argument for retention of the interest

ceiling. This argument is that those who borrow from banks are entitled to protection from unjustifiably high charges—as are all other members of the public. If there is insufficient competition to provide adequate protection, there should be some constraint upon prices by government regulation. And, as the Royal Commission on Banking and Finance was aware, competition between the Canadian banks includes very little price competition.

October 1966.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

Publications

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 54

THURSDAY, MARCH 16, 1967

Respecting

Bill S-28, An Act to incorporate Anniversary Life Insurance Company

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WITNESSES:

Mr. Meredith Fleming, Q.C., Parliamentary Agent; Mr. R. Humphrys, Superintendent of Insurance; Dr. J. O. Lockhart, President, and Mr. W. S. Major, General Manager, Anniversary Life Insurance Company.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

26110—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,	Fulton,	Mackasey,
Cameron (*Nanaimo-Cowichan-The Islands*)	Gilbert,	McLean (*Charlotte*),
	Irvine,	Monteith,
Chrétien,	Lambert,	More (*Regina City*),
Clermont,	Latulippe,	Munro,
Coates,	Leboe,	Valade,
Comtois,	Lind,	Tremblay,
Flemming,	Macdonald (*Rosedale*),	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

THURSDAY, March 2, 1967

Ordered,—That Bill S-28, An Act to incorporate Anniversary Life Insurance Company, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest

LÉON-J. RAYMOND
The Clerk of the House of Commons

26110—1½

REPORT TO THE HOUSE

MARCH 16, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-THIRD REPORT

Your Committee has considered Bill S-28, An Act to incorporate Anniversary Life Insurance Company, and has agreed to report it without amendment.

A copy of the relevant Minutes of Proceedings and Evidence (Issue No. 54) will be tabled later.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, March 16, 1967.
(109)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:15 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Flemming, Gray, Irvine, Lambert, Latulippe, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*) (10).

Also present: Mr. Fairweather, M.P., sponsor of Bill S-28.

In attendance: Mr. Meredith Fleming, C.Q. Parliamentary Agent; Mr. R. Humphrys, Superintendent of Insurance; Dr. J. O. Lockhart, President and Mr. W. S. Major, General Manager, Anniversary Life Insurance Company.

The Committee proceeded to consideration of Bill S-28, An Act to incorporate Anniversary Life Insurance Company.

On the preamble

The sponsor of the Bill, Mr. Fairweather, introduced the Parliamentary Agent, Mr. Fleming, who in turn introduced the witnesses, Dr. Lockhart and Mr. Major. Mr. Fleming made a brief statement on the organization and aims of the proposed company.

In response to a question, Mr. Humphrys stated that his Department is satisfied with the application.

Messrs. Fleming, Humphrys and Major were questioned, and the preamble was carried.

Clauses 1 to 8 inclusive were carried.

The Title and the Bill were carried.

Ordered: That the Chairman report the Bill without amendment.

The Chairman thanked the witnesses, who were allowed to retire.

The Chairman explained to the Committee that, because of an error, the pages of the brief submitted by Mr. Latulippe had been reproduced in the wrong order when it was printed as Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence. The Committee agreed that, in fairness to Mr. Latulippe, this situation should be corrected.

Therefore, on motion of Mr. Monteith, seconded by Mr. Irvine.

Resolved—That the Committee cause to be printed the same number as originally printed of Issue No. 53, that is to say 1,500 copies in English and 700 copies in French, of Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence.

At 12:10 p.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(*Recorded by Electronic Apparatus*)

THURSDAY, March 16, 1967.

The CHAIRMAN: Gentlemen, I think we are in a position to begin unofficially with the taking of the evidence, and then we will see where we are at when we are ready to vote on the bill itself.

I would now ask the sponsor, Mr. Gordon Fairweather, M.P., to formally introduce the Parliamentary Agent and that will discharge his official duty. If you do not want to say anything, I will merely indicate that you are here Mr. Fairweather, in your capacity as sponsor.

Mr. FAIRWEATHER: I am here in my capacity as sponsor and there are no monetary emoluments from my point of view at all. I am happpy to introduce Mr. Meredith Fleming, as Parliamentary Agent, and officers of the company.

Mr. IRVINE: Mr. Chairman, would you tell us who Mr. Fairweather is?

The CHAIRMAN: Yes, I have seen him on several occasions on your side of the House and I would assume that he is well known to all and sundry. We are referring to none other than Mr. Gordon Fairweather, M.P. for Royal, distinguished citizen of New Brunswick, former Attorney General, and a well-known student of parliamentary affairs.

We are also now in a position to proceed officially, so in any event I will ask you, Mr. Fleming, as Parliamentary Agent, to introduce the witnesses you have and to then make any initial presentation that you may wish to make to us, following which we will hear from the Superintendent of Insurance.

Mr. MEREDITH FLEMING, Q.C. (*Parliamentary Agent*): Thank you, Mr. Chairman. Gentlemen, I am the Parliamentary Agent as well as one of the sponsors of the Corporation. At my immediate right is Dr. J. O. Lockhart, of Hamilton, who is one of the sponsors, and on his right is Mr. W. S. Major, of Toronto.

This is an application to incorporate a life insurance company with the candid intention that this company will work along with P.S.I., Physicians' Services Incorporated, and handle the life end of the business.

In the twenty-year experience of P.S.I., and more especially in the latter years, we have found—and I say "we"; I should say that I am General Counsel for Physicians' Services Incorporated, Dr. Lockhart is the President and Mr. Major is the General Manager—we have found that competition from the commercial health insurance companies has indicated that we are rather at disadvantage in selling a health product alone, and that the unions, the large employers and large groups have been asking with increasing frequency for a group life coverage to be in the package along with the health benefits; so that Physicians' Services desires to work along with it a life company.

None of the incorporators are connected with any life insurance company or financial institution. They are all connected with the Physicians' Services Incorporated. Dr. Lockhart is the President and has been such for seven or eight years; Dr. Owen B. Millar is the Vice President and has held that position for some four years; Mr. Frank W. Correll, executive, who is in fact the Assistant Comptroller of General Motors in Oshawa, is a lay director; that is, a non-medical director of P.S.I.; Dr. W. Donaldson Whyte is a general surgeon from Peterborough; Mr. Wallace Stewart Major, executive, is the General Manager of P.S.I., and I might say that he has been the General Manager for 20 years.

I think this is the place that I can say that a great deal of the substantial success of Physicians' Services Incorporated has been due to the skill and ability of Mr. Major as its only General Manager. And I have been connected literally with the P.S.I. since the time of its incorporation. As a law student, I took up the papers to have them signed, and my firm has acted for P.S.I. continuously.

We anticipate that all, or substantially all, of the capital stock of the insurance company will be either held by P.S.I. or held by persons closely connected with P.S.I. There is no intention whatsoever to sell the company to American interests or indeed to sell the company to any other interests whatsoever, be they Canadian or American.

We are looking largely to the skill of the present management of Physicians' Services Incorporated to carry on this new venture, life insurance, with, of course, some specialized help that we may have to obtain elsewhere.

I point with some pride to the selection of the name Anniversary Life Insurance Company, as it is unique. It cannot be confused in any way with any existing life insurance company or any insurance company, so far as I know.

I might inject a humorous note here that our original name was York Life Insurance Company and we were very disappointed when we could not get the name. Now, we have rather changed our minds.

Commencing over one year ago we have had discussions with Mr. Humphrys, and I trust he will speak favourably about us. And that, gentlemen, is my formal presentation, thank you. I would be pleased, as I am sure my confreres would, to attempt to answer any questions.

The CHAIRMAN: Before inviting questions from Mr. Fleming and his associates, I think we should hear from the Superintendent of Insurance with respect to this application.

Mr. R. HUMPHRYS (*Superintendent of Insurance*): Mr. Chairman and gentlemen, this bill to incorporate a life insurance company is in standard form. The authorized capital is one million dollars, which may be increased to four million. At least $500,000 of capital must be paid in. At least $500,000 surplus must be paid in before the company can commence business. We, in the department, have no objection to raise to this proposed incorporation. It is our understanding that it will be operated in conjunction with Physicians' Services Incorporated and its prime business will be group life business issued in conjunction with the health coverage that P.S.I. offers.

The CHAIRMAN: They have met all the requirements demanded by your department to date, have they?

Mr. HUMPHRYS: Yes, Mr. Chairman.

The CHAIRMAN: And have you discovered anything adverse about any of the applicants for the incorporation?

Mr. HUMPHRYS: No, Mr. Chairman. The record of Physicians' Services Incorporated is well known in Ontario. I have been in touch with the Superintendent of Insurance for Ontario, who has had the supervision of P.S.I. for many years. I am also familiar with the financial statements of P.S.I. and I have discussed this proposal with officers of P.S.I. on a number of occasions in the past year. So far as the department is concerned, Mr. Chairman, we are satisfied with the proposal.

The CHAIRMAN: You agree that there is no possibility of confusion with respect to the proposed name?

Mr. HUMPHRYS: Yes, Mr. Chairman. We had a search made of records in the office of the Registrar General of Canada and we found no companies having a name that was similar to this or would be confused with this.

The CHAIRMAN: Now, we will accept questions. Mr. Macdonald, then Mr. Irvine, Mr. Cameron and Mr. Lambert.

Mr. MACDONALD (*Rosedale*): Perhaps, Mr. Chairman, I could direct my first question to Mr. Fleming. In view of his close affiliation with P.S.I., I wonder if he could just mention briefly for us the nature of the incorporation, the nature of the ownership of P.S.I. and, in a brief way, how it functions?

Mr. FLEMING: Physicians' Services Incorporated is an Ontario corporation under the Ontario Corporations Act and incorporated as a non-profit corporation. It is composed of members known collectively as the House of Delegates and they, in turn, elect directors who are known as the Board of Governors. It has always had a very close association with the Ontario Medical Association and it is popularly known as the doctors' sponsored plan in Otario. It arranges prepaid medical care on a non-profit basis; that is, contracts between subscribers on the one hand, and participating physicians on the other.

There are, I understand, at the present time, approximately 1,800,000 participants, or beneficiaries, if I might use an inexact expression, and there are 6,000-odd participating physicians.

The scheme of the corporation is that the operation, the subscription rates, subscription income, will cover the payments out and leave a reserve for disasters.

The corporation's head office is in Toronto in a building which it owns, and it would be anticipated that this company would be a tenant, formal or informal of P.S.I., at least in its initial stages, in that building at Yonge and Eglinton Streets in Toronto

Mr. MACDONALD (*Rosedale*): As a non-profit corporation, therefore, no distribution may be made to the members, except in the event of its winding up, as I understand it?

Mr. FLEMING: That is correct, sir.

Mr. MACDONALD (*Rosedale*): And, if I could inquire as to the nature of the ownership of the shares of Anniversary Life, will they be held by individual

members of the medical profession, or will they be held either by, or on behalf of P.S.I.?

Mr. FLEMING: Well, candidly, sir, I cannot answer that question at the present time, but it would be fair to say that they would either be held with the beneficial interest in P.S.I. or would be held by participating physicians in P.S.I.

Mr. MACDONALD (*Rosedale*): So that theoretically, at least, whatever the policy to be followed, the profits of this company we are being asked to incorporate could be distributed among the members? There is no legal inhibition?

Mr. FLEMING: No. There would not be.

Mr. MACDONALD (*Rosedale*): You referred to the Ontario Medical Association. P.S.I. is Ontario-based and the intention would be presumably that this company also would be Ontario-based as well?

Mr. FLEMING: Ontario-based, but doing business these days with national groups. We do business in all the provinces.

Mr. MACDONALD (*Rosedale*): So it would be possible for it to write contracts in jurisdictions other than Ontario?

Mr. FLEMING: Yes.

Mr. MACDONALD (*Rosedale*): What life insurance experience does the group have at the executive level?

Mr. FLEMING: Very little life insurance experience, to be frank. That is the aspect in which we think we would have to get some specialist help. If I might put it loosely, we think we know how to operate a health insurance company, but we realize that there may be some problems in life insurance that we have not experienced and on which we would be well advised to have some expert help.

Mr. MACDONALD (*Rosedale*): Mr. Chairman, this is my final question to the Superintendent. Is the anticipated type of life insurance business so different from the health business they have been running heretofore as to create any problems in management? Will inexperience, in your opinion, be a problem?

Mr. HUMPHRYS: Mr. Chairman, I think that the present management has a depth of experience in administering group operations, that is the type of insurance that deals with a large number of people on the basis of group contracts. I think that experience would be very useful in the administrative end of handling life insurance in the same way, but I think that they will require some experienced management, although perhaps not as much as if the company were operating completely on its own. They will also require actuarial advice. I would think that in the initial stages they will probably get their acturial advice on a consulting basis, but they will need some management which is knowledgeable in the insurance field.

Mr. MACDONALD (*Rosedale*): Thank you, Mr. Chairman.

Mr. IRVINE: Mr. Fleming said, in reply to one of Mr. Macdonald's questions —there are a couple of those questions that I would like to ask, but I do not have the information now—that as an association you had very little life insurance experience. Does P.S.I. now have any life insurance program for its subscribers?

Mr. FLEMING: No, we do not.

Mr. IRVINE: As of now there is no coverage at all. Do they intend holding any policies on anyone outside of P.S.I. subscribers?

Mr. FLEMING: It is not the present intention, but it might be in the future, sir. I realize that it would be impossible to control a subscriber or participant who might leave a group covered by P.S.I.; he might leave his P.S.I. coverage and still carry on with life, but initially, certainly the policy holders would be recruited from P.S.I. participants and subscribers.

Mr. IRVINE: Then further, do you have any idea now how a program of this type might affect subscription fees? Would it have a tendency to increase them?

Mr. FLEMING: I would not affect them either way. If they could get the life insurance in the package, the package would be more expensive, but at the same time they certainly do not have to take life insurance in the package.

Mr. IRVINE: It would be an optional thing?

Mr. FLEMING: Oh, yes.

Mr. IRVINE: Right now, I would like to ask one more question. I do not want this to appear facetious because it is not. Has the proposed company any intention of entering in any way into the finance field?

Mr. FLEMING: No. You mean acceptance corporations, banks, trust companies? No; none whatsoever.

Mr. IRVINE: Thank you, Mr. Chairman.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I do not know the details of it, but I understand the Ontario government has a medicare scheme. What is the relationship of P.S.I. to that, or what will it be?

The CHAIRMAN: That would be OMSIP.

Mr. CAMERON: When the federal government institutes its medicare plan, how will the operation of P.S.I. fit into that?

Mr. FLEMING: We have certainly given some thought to that, sir. We feel that we will be left in existence. It is possible, of course, that some part of our activity—possibly a great part of our activity—will be taken over by the government, but there will be scope for continued activity in what I might call surplus medical services, paramedical services and that sort of thing, which would continue in a similar way to that in which Blue Cross has continued in Ontario, covering over and above what is covered by the government hospital service.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): This development, you feel, would not affect your operations in the life insurance business, much of your medical business.

Mr. FLEMING: No, that would be fair to say. No, it would not affect our operations in the life field at all, because it would be the same situation as it it today. Life would be a frill, a fringe benefit, or surplus, as it were, which would be carried on, and today the basic service that we sell is basic medical care.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Fleming, Mr. Humphrys made some reference to experience in handling group coverage in your life insurance operations. Are you planning group insurance?

Mr. FLEMING: Yes, initially it would be confined to group insurance.

Mr CAMERON (*Nanaimo-Cowichan-The Islands):* It would be your subscribers to P.S.I. as a group.

Mr. FLEMING: No, pardon me, sir, we rather contemplated that groups who subscribed to P.S.I. would also take, partly on their own demand or request, life coverage. I mean by a group, for instance, the employees of the XYZ company in North Bay. That would be where the insurance coverage would be initiated, rather than the single lady that lives on Avenue Road who used to be with a group but now pays direct. It would be sold to the groups, and those are the groups.

Mr. CAMERON: (*Nanaimo-Cowichan-The Islands*): What proportion of your membership of P.S.I. is tied to groups of that type?

Mr. FLEMING: First of all, membership. The participants and subscribers are not, in fact, members of the corporation in the sense that members are our shareholders. Participants or subscribers—pardon me, what is the percentage?

Mr. MAJOR: Two hundred and fifty thousand of the 1,850,000 are on what is known as "pay direct". These are people who have left the group and continue to carry the coverage.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But the rest are in groups.

Mr. MAJOR: That is right.

Mr. MONTEITH: May I just ask a short supplementary question? Do all of your clients or beneficiaries, as you call them, emanate from groups to begin with?

Mr. MAJOR: That is correct.

Mr. IRVINE: Mr. Chairman, are those people who are now outside of the group subscribers for various reasons, entitled to this insurance coverage, or will they be entitled to this insurance coverage?

Mr. MAJOR: Not at the offset, sir.

Mr. IRVINE: Not at the offset.

Mr. MAJOR: No, sir, it is not the intention of the proposed corporation to sell individual life insurance. I think that we will have to give the people who buy it in groups the opportunity to carry it on a converted basis. There is no intention to set up agencies, nor can I foresee agencies for maybe three, four, five or six years.

Mr. IRVINE: The subscribers formerly with a group, not now with a group, would be given a privilege to put this in. Right?

Mr. MAJOR: No. But as people leave groups and you have more and more individuals to care for, then the pressure grows to get into the agency business and this should take quite a while.

(*Translation*)

The CHAIRMAN: Mr. Latulippe. Have you any questions to ask?

Mr. LATULIPPE: No, but I could perhaps take advantage of the opportunity—

The CHAIRMAN: I thought you might have a few questions.

Mr. LATULIPPE: Mr. Chairman, does this insurance company intend selling insurance? Is it exclusively Canadian?

(*English*)

Mr. MAJOR: Yes.

(*Translation*)

Mr. LATULIPPE: Does it have the intention of doing business outside of Canada?

(*English*)

Mr. MAJOR: No.

(*Translation*)

Mr. LATULIPPE: So, it is a company with exclusively Canadian capital in which all profits will be reinvested in Canada?

(*English*)

Mr. MAJOR: Exclusively, yes.

(*Translation*)

Mr. LATULIPPE: All profits coming from the insurance business will be recapitalized in Canada. Those are the questions I had to ask. If it is an exclusively Canadian company, we have no objection to it, we welcome new Canadian businesses who render service to the Canadian people, but will your company invest in various regions in Canada?

(*English*)

Mr. MAJOR: I would say that remains to be seen. Originally we would start out on those things that we are now well acquainted with: those organizations in which we now have many millions of dollars invested, most of them in bonds and short-term notes; very little of it in equities. I suppose if this is a successful corporation, we will eventually come to the day when it would be prudent and wise for the investment policy of the corporation to go into equities. These equities will definitely be Canadian. Whether or not we go to British Columbia or Quebec, I think, depends on the times and the circumstances when a particular amount of money required for investment is available.

(*Translation*)

Mr. LATULIPPE: Thank you very much. Providing it is exclusively Canadian capital, we have no objection to it. We are looking for new companies and for new capital to come to Canada, because we need capital. We have more need for Canadian capital than for foreign capital. That is why I wanted to know if you are going to invest in other parts of Canada, so that if your company becomes stronger, more powerful, you might find it advantageous to sell insurance in other parts and to invest in other parts. I will finish by saying that you can count on our co-operation.

The CHAIRMAN: Thank you, Mr. Latulippe.

(*English*)

Mr. LIND: Mr. Fleming, I think you said earlier that this would be fairly closely associated with P.S.I. Is this Anniversary Life Insurance Company being set up as a mutual or...

Mr. FLEMING: No, it is not.

Mr. LIND: But P.S.I. will be the majority shareholder.

Mr. FLEMING: It is anticipated P.S.I. or people connected with P.S.I.

Mr. MACDONALD (*Rosedale*): If I may have a supplementary here. As I recall it, your answer to me was that the question had not been decided as to whether the shares will be held py P.S.I. or by the participating doctors.

Mr. FLEMING: That is fair to say.

Mr. LIND: What connection is there with the OMA, the Ontario Medical Association? Is that pretty closely connected here?

Mr. FLEMING: The majority of our directors are members of the OMA, and the OMA have a right to nominate sixteen members of the House of Delegates who, in turn, selected the governors. I think it is fair to say that there is a pretty close connection, although we are an autonomous corporation legally.

Mr. LIND: Is P.S.I. available to all physicians if they will adhere to the schedule of fees and deductions?

Mr. FLEMING: That is right, sir.

Mr. LIND: There are some physicians who choose not to belong to P.S.I. though.

Mr. FLEMING: There are a small number. Pardon me, is it 6,000 we have?

Mr. MAJOR: Six thousand, seven hundred.

Mr. FLEMING: Out of how many in Ontario?

Mr. MAJOR: Possibly 8800; 9000, perhaps.

Mr. LIND: So that you have by far the majority of physicians in Ontario who adhere to the P.S.I. and work through P.S.I.

Mr. FLEMING: That is correct.

Mr. LIND: What happens when you set up this life insurance? Will this be extended to all medical men also on a group basis?

Mr. MAJOR: Mr. Chairman, may I answer that. If we could form first of all the total number of the medical profession into a group basis, it would be available to them. Then they would have to buy their own service. There may be subgroups qualified to take it, but this is something that will develop. I have no anticipation of selling this to the medical profession per se as a group. They are not now a group that would be eligible for it. And unless something changes, I cannot foresee that they will be, but they may be.

Mr. LIND: Not through your O.M.A.?

Mr. MAJOR: I doubt—

Mr. LIND: Is that a group life?

Mr. MAJOR: I would be tempted to say that the O.M.A. now has some kind of a setup with which I am not acquainted and it may not be possible to change this. I do not know.

Mr. LIND: Well, I would venture to say that when you are going to put a factor in here on for instance, a company who has P.S.I. and now your service for

their employees, the option is that you provide each employee with two or three or maybe five thousand dollars of life insurance if they desire it at the same time. Is this what you have in mind?

Mr. MAJOR: That is correct, sir. The fine point, sir, is that when you sell to employee groups there is a stereotyped approach which involves a payroll deduction but there are no payrolls in the O.M.A. to properly approach the medical profession or the legal profession and have the legal profession join any firm on a group insurance basis. The first hurdle that must be overcome is whether or not you can handle this through a payroll deduction and what the alternative is. Certainly, there would be no common payroll deduction available to members of the legal profession or members of the medical profession. So that I do not think it would be prudent, for argument's sake in starting this business, to try to cross such a hurdle because there are lots of companies that can use this where the ground is fertile and the requirements are all there automatically, and these are the people that we would talk to. We would not try to develop right away a new method. We would work on the established lines.

Mr. LIND: This is a legal point, probably, and one for the tax department. As I understand it now, these deductions from the employee and any contributions by the employer are taxable. Is that not right?

Mr. MAJOR: I cannot answer that. I know that it is true in respect of the contributions for the Ontario Hospital Services Commission, but I cannot answer whether the contribution by an employer, if any, to a group life insurance benefit is taxable or not. I cannot answer that. I am sorry.

Mr. HUMPHRYS: Mr. Chairman, I do not believe that that is treated as taxable income to the employee.

Mr. LIND: That is what I was thinking. Thank you.

Mr. MONTEITH: I have just one or two questions, Mr. Chairman. As I understand it, P.S.I. is really only to set up to do business with groups. Your office mechanics are only set up to do business with groups, and you are assuming the same as far as the Anniversary Life goes.

Mr. FLEMING: Correct.

Mr. MONTEITH: I do not know if this question is too related or not, but I would like to ask it. Since the inception of OMSIP in Ontario, has it had any effect on the volume of new business written by P.S.I.?

Mr. MAJOR: Not on the volume of new business, sir, because OMSIP does not write group business, and all our new business is group business. But it has had some effect on the volume of P.S.I. and, as a matter of fact, approximately 150,000 bodies and souls, because of the subsidies that the government pays to certain people in certain tax brackets. It was much more prudent for these people to go to OMSIP, where they would either get their medical care free or at a reduced rate, than to pay the non-subsidized rates of P.S.I. after they have left the group and went on pay direct. Our pay direct, now running at 250,000 bodies and souls, is approximately 150,000 less than it used to be because of this feature.

Mr. MONTEITH: I think that answers all the questions I have Mr. Chairman.

The CHAIRMAN: Perhaps I could ask a question at this point. Is it your intention, gentlemen, to offer insurance coverage under the Anniversary Life Company, if it is incorporated, for sale through leaflets in doctors' waiting rooms?

Mr. MAJOR: No, Mr. Chairman. We have not used this type of promotion. It was considered many years ago that the doctors of the province would be prime salesmen for Physicians' Services, but it did not work out because the doctors of the province just were too busy to talk to management. The number of management people that walked into the doctor's office did not warrant setting forth advertising material in the doctor's office and the thing has never been instituted. We have not used this type of sales approach, nor would it be our intention to do so in life insurance. It would not be a good approach. It would not be reasonable. I would say it would be a waste of money.

Mr. MORE (*Regina City*): Mr. Chairman, just to be clear. The Act as presented to us does not limit the type of insurance that you may engage in, does it?

Mr. MAJOR: Not in the personal aspect.

Mr. MORE (*Regina City*): Well, I mean in regard to—we are talking about groups but you could develop—

Mr. MAJOR: Oh, yes.

Mr. MORE (*Regina City*): —and sell to individuals some types of coverage.

Mr. MAJOR: Oh, yes.

Mr. MORE (*Regina City*): So that there is no limitation in the Act, although your initial approach is through your group. And your initial capital will come from reserves of P.S.I., I take it.

Mr. FLEMING: It may, sir. On the other hand, it may come from participating physicians.

Mr. MORE (*Regina City*): I see. Well, now, under the requirement for a director, a director must hold shares in his own right, is that not a fact?

Mr. HUMPHRYS: Yes, Mr. Chairman, that is correct.

Mr. MORE (*Regina City*): Thank you. That is all.

The CHAIRMAN: Mr. Irvine, you are next.

Mr. IRVINE: At the outset, with the inception of this proposed plan, what amount of coverage were you figuring on per subscriber or does it vary. Is it the same amount?

Mr. MAJOR: Coverage for life insurance?

Mr. IRVINE: Yes.

Mr. MAJOR: Well, this has not been developed but I can develop it for you very quickly. A base approach for group life insurance would be at least $1,000 for every member of the staff. Following that initial presentation and the staff being graded by income, as incomes moved up, people would have available to them a certain amount of additional thousands of dollars of life insurance in relation to brackets of salary with possibly a maximum amount of $15,000 or $20,000. Group life insurance is a tailor-made proposition in most cases, but with a reasonable base to start on so that you are not going to sell somebody $100 worth of life insurance or $500 worth. You must start at some reasonable

base. I would think $1,000 would be a reasonable base for the starting echelon of employees. Is that what you wanted to know?

Mr. IRVINE: But this is optional?

Mr. MAJOR: It is optional to a point. That is correct.

Mr. IRVINE: Thank you very much, Mr. Chairman.

The CHAIRMAN: I have a further question. Is there anything similar to this with respect to any of the other doctor-sponsored medical care plans in other provinces as yet?

Mr. FLEMING: Is there anything similar to this?

The CHAIRMAN: In so far as you are aware?

Mr. MAJOR: No, there is not that I am aware of, Mr. Chairman. I guess the closest that would come to it would be Quebec Mutual Life, which is a running mate for Quebec Hospital Services Association. But Quebec Hospital Services Association is not a doctor-sponsored plan so that is why I—

The CHAIRMAN: It offers hospital service?

Mr. MAJOR: It offers both but it is not sponsored by the doctors of the province of Quebec. It is sponsored by the hospitals.

The CHAIRMAN: Do we have any further questions or discussion on the preamble? If not, I will ask if the preamble carries.

Preamble agreed to.

Clauses 1 to 8 inclusive agreed to.

The CHAIRMAN: Shall the bill carry?

Bill agreed to.

Title agreed to.

The CHAIRMAN: Shall I report the bill without amendment?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Before we adjourn, there is another matter which I think we should deal with.

Gentlemen, this has nothing to do with your bill so you are excused. Thank you for providing us with the necessary information for the consideration of this bill.

In the rush to get the proceedings of the Finance Committee on the banking legislation ready for consideration in the House, the printers unfortunately inverted one of the pages of Mr. Latulippe's brief and the effect, I gather, is to make it difficult for others who have not had the opportunity we have had to consider the brief which was circulated amongst us, I think, last December, to consider the views put forward in an orderly fashion.

Because of this inadvertent printer's error, I would like to suggest to the Committee that we may want to cause to be printed a number of additional copies in English and in French of the particular Appendix itself which is Mr. Latulippe's brief, but in this case and on this occasion the pages would be in the right order. So that, as I say, others who might want to consider the brief and who have not had the opportunity we have had to look at it, beginning last December, would be able to get the views put forward in the proper order.

I am informed that we must have a definite motion to permit this to be done. Perhaps I would invite the Committee to present a motion and the motion would

read as follows: That the Committee cause to be printed a certain number of copies in English and a certain number of copies in French of Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence of this Committee.

Mr. MONTEITH: What do you mean by "a certain number"?

The CHAIRMAN: Well, this is something, I think, for the Committee to decide. What was the number of copies that were printed of the original Issue No. 53? There were 1500 in English and 700 in French printed of the original issue No. 53. I think I should make clear that the idea would be that the whole issue would not be reprinted but instead, the Appendix itself with an appropriate identifying cover.

Mr. MONTEITH: You would want one for each member of the House of commons and Senate. How many more would you want?

The CHAIRMAN: Well, I gather there are a certain number of other copies that have to be available because members may wish to get extra copies for their own use, as is done with others. I am informed by the Clerk that it takes at least 515 for distribution to the House of Commons and Senate and officials; therefore, you have to have a certain extra number available for members and so on for requests.

Mr. MONTEITH: I do not see why you should not do the whole 1500.

The CHAIRMAN: It is up to the Committee.

Mr. MORE (*Regina City*): Well, then, there would be no question that the brief would be fully covered.

The CHAIRMAN: That is right. That is quite so.

Mr. MORE (*Regina City*): That is the way it should be.

The CHAIRMAN: That is quite so. Would someone care to move a motion?

(*Translation*)

Mr. LATULIPPE: Mr. Chairman, I thank you for bringing this before the Committee and I want to thank the Committee also for the attention they have given this document. It is a small error which happened at the printers, when they printed the brief. Now I want the brief well presented, and well printed. One page was placed in the wrong order and it changes the whole sense of my brief, so if it is at all possible, I would like to have it reprinted. It is unfortunate, but I sincerely thank Mr. Chairman, because he really is looking after the matter and I want to thank the Committee

Now with regard to the number of volumes to be printed, would it not be possible to have the same number in French as in English. Could we not have an equal number.

The CHAIRMAN: I am in the hands of the Committee. It has been suggested that we should have printed the same amount of copies as we had printed for volume 53 in the first place. In other words, 1500 in English, and 700 in French. Now your suggestion is that this additional volume be printed in equal number of French and English copies.

Mr. LATULIPPE: If this is acceptable to the Committee, I would like to have the same number in French as in English. 1500 in English and 1500 in French. I would be most appreciative.

(*English*)

Mr. MORE (*Regina City*): Mr. Chairman, could I ask the purpose? They are not printing the whole brief.

The CHAIRMAN: No.

Mr. MORE (*Regina City*): They are just printing the Appendix, but if you print more copies of the Appendix than of the original brief, what purpose would this serve? I wonder if Mr. Latulippe understands this.

The CHAIRMAN: Well, your point, Mr. More, is that—

Mr. MORE (*Regina City*): That the Appendix without the original brief is useless.

The CHAIRMAN: The Appendix will contain the original brief.

Mr. MORE (*Regina City*): Oh, it will?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): The Appendix without the brief would be useless.

The CHAIRMAN: The Appendix is the brief.

Mr. MORE (*Regina City*): Oh, I see. It is set up, so what is the difference?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It makes no difference.

Mr. MORE (*Regina City*): If it is set up it is a matter of run off. Once it is set up, and you are setting it up—

The CHAIRMAN: Well, then, Mr. Irvine, you were moving the motion?

Mr. MONTEITH: It would seem reasonable to me that we should have the same number printed as were originally printed, only correctly.

The CHAIRMAN: Well, it is up to the Committee. The original number printed which would have been available if there had not been the unfortunate printing error would have been 1500 in English and 700 in French, and in fact these have been printed. The only thing is—and I think Mr. Latulippe's point is well founded—that with the pages inverted, people who will be reading these printed copies of the brief will not have the same benefit as we have had to follow his argument.

Mr. MONTEITH: My motion was to the effect, Mr. Chairman, that we have the same number printed as was originally printed.

The CHAIRMAN: All right. I will accept your motion in this sense, seconded by Mr. Irvine. Just so that we will have it before us for discussion, if you both agree to change that or if there is an amendment, I am sure we can entertain it.

Mr. IRVINE: Mr. Latulippe I believe is satisfied with that, are you not?

Mr. LATULIPPE: Yes, I am satisfied.

(*Translation*)

The CHAIRMAN: Would you be satisfied then to have printed 700 French and 1500 English copies of your statement?

Mr. LATULIPPE: I would have preferred the numbers be equal, but if it is not possible to have the same number in French as in English, I will not insist. Of course, if it were possible I would have liked the number to be even, but if this is not acceptable to the Committee—

(*English*)

Mr. MONTEITH: Could you point out to Mr. Latulippe that this was the original number.

The CHAIRMAN: I want to make sure that in another place there will not be any suggestions that the Committee did not deal with this matter in a fair and equitable manner.

Mr. MONTEITH: Well, yes, but—

The CHAIRMAN: I want to have it absolutely clear on this—

Mr. MONTEITH: Does he fully understand that my motion is to the effect that we reprint exactly the same number as the original printed?

The CHAIRMAN: Yes I take from what he just said that he understands that, and although he would prefer to have an equal number in both languages, he is willing to accept this. Is there any further discussion on the motion? Before putting it to a vote, I would like to say for the record that—

(*Translation*)

I regret that there was an error in this matter of Mr. Latulippe's statement. I regret that he did not appear as a witness through some misunderstanding and I would like, personally, and I think I am speaking on behalf of the Committee that there was no intention on our part to prevent Mr. Latulippe from appearing as a witness and the Committee would be very happy to hear him as a witness. We would be happy, now we have heard his wishes in the matter.

Mr. LATULIPPE: There too probably there was an error, I think, because I attended the Steering Committee and I noticed my name had been struck off the list as a witness, so I spoke to the Steering Committee, I stated that I wished to appear as a witness. I was replaced on the list once more and I was aked by the Steering Committee whether I would be willing to give evidence any time, at some time perhaps, when the Committee might have been short of witnesses, and I might have taken somebody's place. So I accepted this arrangement and I waited until the end of the hearings, thinking that I was going to appear, but Mr. Chairman showed me another brief which was discussed at the opening of a Committee sitting when I was not present, because I was not aware of the situation. It was then decided that the Briefs which had not been presented up to that date, would not be considered. The matter was discussed and Mr. Chairman showed me the transcript in the Committee Proceedings where it is written in black and white although I had no knowledge of the matter. That is why I said in the House that I never said anything that was not true and that I was not going to start now. It is an error, a misunderstanding somewhere—either I was not present at the beginning of the sitting during which time you spoke of this matter. I was not aware you had dealt with it, that you had discussed the matter and had come to a decision. I was present at that particular meeting but I had no knowledge whatever of this discussion with regard to those who had briefs to submit. So there was a misunderstanding because I was not aware that there had been any other discussion of the matter. Had I been aware I certainly would have asked to appear as a witness. Now that the thing is settled I will forget it, and I want to thank all the members for their consideration, and I regret that I may have offended some by the statements I made. I would not have done it for

anything, and now I would like to let the whole thing drop. As long as the brief appears in the proceedings, I am satisfied, satisfied with the whole Committee and of the treatment I have received.

(*English*)

The CHAIRMAN: Before calling the motion, I would say that on future occasions, if any member of the Committee feels that his wishes or rights are not being adequately handled, I think we will be in agreement that he should not remain silent until the matter under consideraton has been disposed of but should make use of his rights and opportunities to bring this to the attention of the Committee so that apparent misunderstandings cannot develop and become possible matters of controversy at a later date.

You know what the motion is. Shall the motion carry?

Motion of Mr. Monteith agreed to.

The CHAIRMAN: The meeting is adjourned.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

Government
Publications

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 55

TUESDAY, MARCH 21, 1967

Respecting

Bill S-41, An Act respecting La Société des Artisans.
Bill S-27, An Act to incorporate Laurier Life Insurance Company.

WITNESSES:

Mr. R. Humphrys,, Superintendent of Insurance. *Representing La Société des Artisans:* Mr. Luc Parent, Q.C., Parliamentary Agent. Representing *Laurier Life Insurance Company:* Mr. V. R. E. Perry, Parliamentary Agent.

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ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

26112—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,
Cameron (*Nanaimo-Cowichan-The Islands*),
Chrétien,
Clermont,
Coates,
Comtois,
Flemming,
Fulton,
Gilbert,
Irvine,
Lambert,
Latulippe,
Leboe,
Lind,
Macdonald (*Rosedale*),
Mackasey,
McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Valade,
Tremblay,
Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

THURSDAY, March 16, 1967.

Ordered,—That the following bills be referred to the Standing Committee on Finance, Trade and Economic Affairs:

Bill S-41, An Act respecting La Société des Artisans.

Bill S-27, An Act to incorporate Laurier Life Insurance Company.

Attest.

LÉON J. RAYMOND,
The Clerk of the House of Commons.

26112—1½

REPORT TO THE HOUSE

MARCH 22, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-FOURTH REPORT

Your Committee has considered the following bills and has agreed to report them without amendment:

Bill S-27, An Act to incorporate Laurier Life Insurance Company.

Bill S-41, An Act respecting La Société des Artisans.

A copy of the Minutes of Proceedings and Evidence relating to these bills (*Issue No. 55*) will be tabled later.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, March 21, 1967.
(110)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Clermont, Gray, Irvine, Laflamme, Lambert, Leboe, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*)—(11).

Also present: Mr. Cameron (*High Park*), sponsor of Bill S-27; and Mr. Gendron, sponsor of Bill S-41.

In attendance: Mr. R. Humphrys, Superintendent of Insurance; *With respect to Bill S-41*: Mr. Luc Parent, Q.C.; the Honourable Senator Lefrançois. *With respect to Bill S-27*: Mr. V. R. E. Perry, Parliamentary Agent; Mr. E. E. Brooker, Comptroller, Laurier Life Insurance Company and Mr. R. Haddad, Comptroller, Laurier Life Insurance Company.

The Committee first proceeded to consideration of Bill S-41, An Act respecting La Société des Artisans.

On the preamble

The sponsor of the bill, Mr. Gendron, introduced the Parliamentary Agent, Mr. Parent, who made a brief statement.

At the request of the Chairman, Mr. Humphrys also made a brief statement.

Mr. Parent and Mr. Humphrys were questioned, and the preamble was carried.

Clauses 1 to 4 inclusive were carried.

The Title and the Bill were severally carried.

Ordered: That the Chairman report the Bill to the House without amendment.

The Committee then proceeded to consideration of Bill S-27, An Act to incorporate Laurier Life Insurance Company.

On the preamble

In the unavoidable absence of the sponsor of the Bill, Mr. Cameron (*High Park*), the Chairman introduced the Parliamentary Agent, Mr. Perry, who in turn introduced the witnesses, Messrs. Brooker and Haddad.

Mr. Perry and Mr. Humphrys were questioned.

The Preamble was carried, and clauses 1 to 10 inclusive were carried.

The Title and the Bill were carried.

Ordered: That the Chairman report the Bill to the House without amendment.

The Chairman thanked the witnesses who were permitted to withdraw.

At 11.40 a.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, March 21, 1967.

The CHAIRMAN: Gentlemen, I think we are in a position to begin our meeting. We will proceed informally for the moment for the purpose of taking evidence. The first item on our agenda is Bill No. S-41: "An Act respecting La Société des Artisans."

(*Translation*)

We have with us this morning, the sponsor of the Bill, our colleague, Mr. Rosaire Gendron. I would therefore ask Mr. Gendron to introduce the members of the Society.

Mr. GENDRON: Mr. Chairman, thank you very much. We have with us the legal adviser of the Society, Mr. Parent, who will make a brief statement on the purpose of the amendments and answer your questions. We also have Senator Lefrançois, who is the general administrator of "Le Société des Artisans".

The CHAIRMAN: Thank you, Mr. Gendron. Now Mr. Parent, I would ask you to give us a brief statement on the purpose of this Bill.

Mr. Luc PARENT: Q.C. (*Parliamentary Agent*): Thank you, Mr. Chairman. The "Société des Artisans" is a fraternal benefit society, under the Canadian and British Insurance Companies Act. It was established under Chapter 71, and amended by the Statutes of 1923. Both these Acts were subsequently replaced by the Law of 1946 relative to the Société des Artisans, and it is this latter law which constitutes the charter of the Society which the Bill is to amend.

The Society is authorized to ask for adoption of legislation under terms of a resolution of its general council, of March 11th, 1966; a copy of this resolution was tabled along with the petition and sent to the House of Commons.

The Bill was passed by the Senate on July 6th, 1966, after having been approved by the Superintendent of Insurance.

The Bill was introduced in the House of Commons after the Standing Committee on Procedure of the latter consented to suspending Article 93 of the Rules.

Definition of the Proposed Amendments

We want to bring in four amendments to the charter of the Society.

Here are a few brief comments to supplement the explanatory notes of the Bill.

Clause 1

As mentioned in the explanatory notes, the sole purpose is to make the french version of Section 5 of the charter agree with the English section of the Canadian and British Insurance Companies Act.

The Bill, in French, uses the expression "société fraternelle de secours mutuels" whereas the French of the charter is "société de bienfaisance fraternelle".

Of course the French charter has to be amended so that the expression will be the same as used in the general legislation. This difference in text does not exist in the English version, because the general legislation and the charter both use the expression the "fraternal benefit society" in English.

Clause 2

The purpose is to authorize the Society to act as a re-insurer for other fraternal societies. It is a current practice for insurance institutions to partially be re-insured by another institution, which they do not consider it wise to assume alone.

Thus, if the Society issue life insurance for over $25,000, they must reinsure the surplus with another society.

Although they have always had the power to re-insure such sums, they do not have the power to re-insure for another society.

It is this latter power which would be given under Clause 2 of the Bill, under certain conditions which are listed in Clause 2 in the explanatory notes.

Clause 3

According to the charter of the Society, executive power is exercised by the assembly of members, whose convention must be held at least once every four years. Under Section 12 of the charter, the convention can, however, delegate to the General Council the power to prescribe or modify contract plans or policies as well as the premiums for these insurance policies. But in the case of such delegation of authority, it can only be exercised by the General Council until the date of the next convention.

Because there has to be a constant improvement in insurance plans to take into account the evolution and the wishes or desires of the public, it is always the General Council which legislates in these matters, and has for several years.

Consequently, the purpose of Clause 3 of the Bill is to amend section 12 of the charter so that it will be the General Council which exercises full authority and can, to the extent it deems necessary, delegate this to the executive council.

The General Council meets every three months whereas the Executive Council meets twice a month.

Clause 4

Finally, Section 13 of the charter requires that the Executive Council will include at least seven members of the General Council residing in Montreal or in the suburbs. The proposed amendment would eliminate the provisions of this section relative to residence of the members of the Executive Council.

Transportation is much speedier than it was in 1946 and 1917 or course, and several administrators living outside the suburbs of Montreal could now regularly attend meetings of the Executive Council.

The CHAIRMAN: Thank you, Mr. Parent. Now before we ask for questions on the part of our colleagues, I have Mr. Clermont on my list. I would like to ask Mr. Humphrys to give his comments.

(*English*)

Mr. Humphrys, would you give us any comments you may have on this proposed bill?

Mr. R. HUMPHRYS (*Superintendent of Insurance*): Mr. Chairman, we have discussed the amendments with representatives of the society and the department has no objection to the amendments. We think that they will serve to improve the administrative convenience of the society.

Mr. Chairman, if it is your wish, I would make a comment on the nature of the fraternal benefit society and why it is subject to the Canadian and British Insurance Companies Act.

The CHAIRMAN: Perhaps it would be useful to the members if you would make a comment in that regard.

Mr. HUMPHRYS: Under the Canadian and British Insurance Companies Act, there is defined a class of institution known as a fraternal benefit society. These societies have had a long history in Canada growing up primarily from the fraternal activites. In past years there have been many of them and there are still some 14 Canadian societies and over 30 foreign societies doing business in Canada.

Their origin was in fraternal activities amongst groups that were bound together by ties of religion, employment, national origin or other common ties. Insurance was granted as a supplementary or a benefit that went with memberships because a good deal of their objective was to help their members against illness or death. It was really to look after the welfare of their members. An insurance element was a strong part of fraternal benefit societies over the years.

As years have gone by there has been a trend away from fraternal and lodge activities—fraternal societies generally—and a somewhat increasing emphasis on insurance. For a great many years the insurance activities of these societies have been brought under the supervision of the Canadian and British Insurance Companies Act and the Foreign Insurance Companies Act so that there will be adequate reserves held and so that the institution will be in a position to meet the insurance liabilities when they arise. That is the reason that there is reference to this kind of society in the Insurance Act and the reason that they fall under the supervision of our department.

The CHAIRMAN: Thank you, Mr. Humphrys. Mr. Clermont.

(*Translation*)

Mr. CLERMONT: Mr. Parent, my question comes from a layman with regard to insurance. What is the difference in French between "bienfaisance fraternelle" and "secours mutuels"?

Mr. PARENT: It is the same thing, except that we noticed in preparing amendments to the charter that we omitted to submit to you that there was a difference precisely in the expression used in the general legislation and the expression used in our charter. So, the purpose of our amendment is to make both those expressions agree in French. In English this distinction did not exist, because in both cases, the words "for general benefit society" were used. What we are asking for, "société fraternelle de secours mutuel" is the expression used in the law.

Mr. CLERMONT: In fact there is no difference?

Mr. PARENT: No.

Mr. CLERMONT: What is the major change in clause 2 of the Bill?

Mr. PARENT: Under clause 2, as I said perhaps a little too fast a little while ago, at the present time the Société des Artisans, for instance, when they insure a person for an amount exceeding $25,000 as a practice, so as not to have too great a risk attached to the same society, if it takes over $25,000 it will be reinsured by another society under the legislation which always existed. What it is now asking is that when another company asks us for reinsurance, we be in a position to be able to do it.

Mr. CLERMONT: What you don't have now?

Mr. PARENT: What we don't have at the present time.

Mr. CLERMONT: In fact one of the changes is a change in residence, and secondly you want to give the general Council more powers?

Mr. PARENT: Yes. Previously it was the Convention which had the powers and it could delegate these powers between conventions to the general Council. Now we are asking for the general council to have the authority directly and to be able to delegate to the executive council.

Mr. CLERMONT: Thank you.

The CHAIRMAN: Are there any other questions? I might perhaps propose some clarification. Does the Société des Artisans have a great deal of business in Canada? throughout Canada?

Mr. PARENT: No. In Quebec, a little bit in Ontario, a little in New Brunswick and in the States which are generally called New England in the United States.

The CHAIRMAN: And can anyone in the society have an insurance policy?

Mr. PARENT: In fact at present time, to be a member of the Société des Artisans, you have to have an insurance policy. At the beginning the founder of the Société des Artisans was a carpenter and he developed the company among the group of carpenters. That is how it got its name.

(*English*)

Mr. HUMPHRYS: Mr. Chairman, this indicates a point I made earlier that originally the main emphasis was on fraternal activities but gradually the emphasis has changed to insurance activities. There is less emphasis now, although the society still maintains a lodge system.

The CHAIRMAN: Are there any further questions? If not, then I will ask: shall the preamble carry?

Some hon. MEMBERS: Agreed.

(*Translation*)

Clauses 1 to 4 inclusive, agreed to.

Title agreed to.

The CHAIRMAN: Shall the bill carry?

Some hon. MEMBERS: Agreed.

(*English*)

The CHAIRMAN: Shall I report the bill without amendments?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, gentlemen, would the President of the Laurier Life Insurance Company advance and be seated. The sponsor of this bill is our colleague, Mr. Pat Cameron, Member for High Park. As you know, he is Chairman of the Justice Committee, and I think he has to preside over a meeting this morning. So we will take it that I am acting on his behalf, in formally introducing the Parliamentary Agent, Mr. Perry, and I will ask him to introduce the other witnesses he has with him.

Mr. V. R. E. PERRY (*Parliamentary Agent*): Thank you, Mr. Chairman. The other witnesses accompanying me today are Mr. Brooker, on my immediate right, President of Laurier Life Insurance Company, and Mr. Haddad, second on my right, who is the comptroller of the company. Both these gentlemen will be available to assist in the answering of any questions that you might have.

The CHAIRMAN: Mr. Perry, may I ask you to make any opening presentation you may care to bring to our attention?

Mr. PERRY: Laurier Life Insurance Company is a company that had, perhaps, a different start from most insurance companies. It was formed with the purpose, amongst other things, of purchasing the group life portfolio of a company known as Global Life Insurance Company.

The normal manner of incorporation would have been to apply to the Parliament of Canada for the incorporation of the company, but because of the timing involved in the availability of this group portfolio, the approach taken was to incorporate the company by letters patent in the province of Ontario. This was accomplished by letters patent dated October 6, 1965, then application was made to the federal Department of Insurance, who gave the company a certificate of registry in December 1965, and upon receipt of the certificate of registry the province of Ontario licensed the company again in December 1965. This roundabout way was made necessary, as I said, by the timing involved in the purchase of the group life portfolio.

The approach showed a co-operation between the federal and provincial departments in that the Ontario department did not want to be solely responsible for this incorporation and licensing and the federal department co-operated to the extent of giving us a certificate of registry under Part 9 of the Act, which confined our activity to the province of Ontario.

We had purchased the group life portfolio of Global Life Insurance Company which was made up of policies in both Ontario and in Quebec. The federal department gave us the approval to service the policies in Quebec. However, we agreed not to sell insurance in the province of Quebec at that time. We also undertook, as soon as conveniently possible, to apply to become a company fully under the jurisdiction and discipline of the federal department. That is why we are here today, gentlemen.

I can give you some background on your applicants, if that is of interest, Mr. Chairman.

The CHAIRMAN: You can do so briefly, if you wish.

Mr. PERRY: The major bit of background I should give you is that of Mr. Brooker who, since service with the Air Force and completion of university in 1949, has devoted all his endeavours in the life insurance field. He came up through the Great West Life Insurance Company and then joined Global shortly after that company received its charter in 1957, as a group sales manager and then rose to be the executive officer in charge of all group activities of the company. Mr. Brooker comes well qualified as an insurance executive, in our opinion.

The rest of the applicants are businessmen in the Toronto, Windsor and Barrie areas and have been active on the board over the past year and, in our opinion, have proved themselves to be able insurance company directors.

The CHAIRMAN: Thank you, Mr. Perry. Mr. Humphrys, do you care to give us your report on this proposed incorporation?

Mr. HUMPHRYS: Mr. Chairman and gentlemen, during the discussions and steps leading to the incorporation of this company under Ontario law, our department, as Mr. Perry has indicated, worked closely with the promoters of the company and with the Ontario authorities so that we were fully aware of all things that were being done. The incorporation proceeded with the clear understanding on everyone's part that the company would apply for federal incorporation as soon as it was conveniently able to do so.

When the company was incorporated under Ontario law, the company became registered under the federal Insurance Companies Act at the request of the Ontario authorities and is now subject to the supervision of our department, but as a provincial company.

This application, if approved, will convert the company to a federal company and it will then be, in all respects, subject to the Canadian and British Insurance Companies Act.

The bill itself is in the standard form for incorporating a federal company with power to take over the business, the assets and liabilities of the corresponding provincial company. The Committee, I am sure, will recall seeing many bills of this type having gone through in the past years. The clauses are standard. The company has an authorized capital of $5 million, and at least $1 million must be paid before business can be commenced. The Act does not come into force until it has been approved by members of the provincial company and until notice has been published in the *Canada Gazette*, and until we are satisfied that the provincial company will cease doing business once the federal company is established.

There will be a private agreement between the federal company and the provincial company whereby the business will be transferred from the provincial corporation to the federal corporation and the provincial corporation will then disappear. This is the same procedure as has been followed in many cases.

There are one or two comments on particular clauses of the bill, but perhaps I could make that comment when we come to them.

The company has been in business for a little over a year. It started with this block of group business taken over from an existing Ontario company. This may seem a rather unusual transaction and it was. The company that sold the business to this new Laurier Life, for its own reasons decided it did not want to pursue the group business extensively. Mr. Brooker was head of the group

department in that company and this opportunity opened up to split off the group business and place it with another company, and this led to the formation of Laurier Life.

The first year of activity has resulted in some underwriting losses as, perhaps, is not unusual. When a new company gets going, there is a certain amount of initial expense to be absorbed and some inevitable reshaping as the management settles down into the position to take over the business. The company still has a very substantial margin of assets over its liabilities so that there is adequate protection for the public, and we are closely in touch with the affairs of the company on a frequent basis.

The CHAIRMAN: Thank you. Mr. Laflamme, and then Mr. More.

Mr. LAFLAMME: I have one question. The main purpose is to have a federal charter?

Mr. HUMPHRYS: That is correct.

Mr. MORE *(Regina)*: Does the company have to raise any new capital to meet the requirements of the federal incorporation?

Mr. HUMPHRYS: No. All the capital of the federal company, once the transfer is made, will be exactly the same as the capital of the provincial company. That amounts to a paid capital of $1 million.

The CHAIRMAN: Mr. Lind, did you have a question?

Mr. LIND: Yes. What I was concerned about, Mr. Perry, I think Mr. Humphrys has partially answered. What portion did you take over from the Global Insurance Company? Is Global still in operation?

Mr. PERRY: They are, sir, and they are still, in a very small way, active in the group field, but not to any extent. We took over practically all of their group life at the time and we paid $1 million for this portfolio and wound up with $80 million of group life on our books from that transaction.

Mr. LIND: But you did not take over any of the sickness, accident or casualty?

Mr. PERRY: Yes, we took over sickness and accident, too. These are the powers which the company seeks—life, sickness and accident insurance.

Mr. LIND: Thanks, Mr. Chairman.

The CHAIRMAN: Mr. Macdonald.

Mr. MACDONALD *(Rosedale)*: Mr. Humphrys, under Clause 9, just as a matter of interest, what do you require? A winding up under the provincial legislation or just a change of name after the incorporation?

Mr. HUMPHRYS: We require a meeting of the members of the provincial company to approve the bill and to approve a draft agreement transferring the assets and liabilities and policies from one company to another and a resolution at that meeting indicating that the provincial company will cease to transact business when the federal company is registered and has been accepted as adequate, in compliance with Section 9. The result of this is that the provincial company is left as an empty shell. The letters patent still exist but it has no

assets, no liabilities and no business so that the normal course would be to surrender the letters patent.

Mr. PERRY: May I speak to that? Practically, because of the mechanics, the Ontario company will be wound up. The way it works out, it will cause the winding up of the Ontario company.

Mr. CLERMONT: Mr. Humphrys said that the capital stock of the provincial chartered company is the same as the federal one will be. Mr. Chairman, is any stock in the provincial chartered company held by non-residents?

Mr. PERRY: No, all stock is held by Canadians.

The CHAIRMAN: Are there any further questions at this time? If not, perhaps I might ask Mr. Humphrys one or two brief questions.

I presume, Mr. Humphrys, that you have satisfied yourself that the name is such as to cause any confusion or misunderstanding in the minds of the public?

Mr. HUMPHRYS: Yes, Mr. Chairman. This was carefully gone into at the time the provincial company was formed.

Mr. MACDONALD (*Rosedale*): How is it that two prominent Tories like Glen Day and Robert Macaulay are incorporating a company under the name Laurier?

Mr. CLERMONT: Is that the Mr. Macaulay who was the former president of the Sun Life a few years ago?

Mr. PERRY: No. I believe not, sir.

The CHAIRMAN: The name of someone well known in public and professional life in the Province of Ontario, if I am not mistaken?

I gather that the predecessor of this proposed federal company is to be wound up. This means that it would not be possible for anyone to get the provincial charter and use the name? Is that right?

Mr. PERRY: Yes. The company must cease to do business. According to the mechanics that we have in mind at the moment, the provincial company will have to be wound up to distribute the money back to the shareholders.

The CHAIRMAN: I also presume, Mr. Humphrys, that your inquiries have not disclosed anything adverse about the incorporators, or petitioners, with respect to this bill which you would like to tell us about?

Mr. HUMPHRYS: No, we have not discovered anything adverse, Mr. Chairman.

The CHAIRMAN: If there are no further questions, I will ask if the preamble carries.

Some hon. MEMBERS: Agreed.

Clauses 1 to 3 agreed to.

The CHAIRMAN: Shall Clause 4 carry?

Mr. HUMPHRYS: Mr. Chairman, could I comment on that? It looks a little odd to say:

> The amount to be subscribed and fully paid before the general meeting for the election of directors is called shall be twenty-two hundred and fifty dollars.

That amount represents the minimum amount that must be subscribed for qualifiying shares for directors. It is a technical point only because the federal company, being the provisional directors, will subscribe for the minimum amount of shares and thus the company will be validly in existence and can sign the agreement to take over the assets and liabilities of the provincial company. But it will not start to do any insurance business until at least $1 million in capital has been paid.

Clauses 4 to 10 agreed to.

The CHAIRMAN: I might add, before asking whether the title shall carry, that Mr. Cameron, the sponsor of the bill, has been with us for most of our consideration of it.

Mr. CAMERON (*High Park*): I came in a little late, Mr. Chairman.

The CHAIRMAN: Yes, I had already indicated that you were occupied with respect to your official duties as Chairman of the Justice Committee.

Title and bill agreed to.

The CHAIRMAN: Shall I report the bill without amendments?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Gentlemen, the meeting is adjourned.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966-67

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

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PROCEEDINGS

No. 56

THURSDAY, MARCH 16, 1967
TUESDAY, MARCH 21, 1967

Respecting

Bill S-28, An Act to incorporate Anniversary Life Insurance Company.
Bill S-41, An Act respecting La Société des Artisans.
Bill S-27, An Act to incorporate Laurier Life Insurance Company.

INCLUDING TWENTY-FIFTH AND TWENTY-SIXTH REPORTS TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

26114—1

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairnam: Mr. Herb Gray

Vice-Chairman: Mr. Ovide Laflamme

and Messrs.

Addison,	Fulton,	Mackasey,
Cameron (*Nanaimo-Cowichan-The Islands*),	Gilbert,	McLean (*Charlotte*),
Chrétien,	Irvine,	Monteith,
Clermont,	Lambert,	More (*Regina City*),
Coates,	Latulippe,	Munro,
Comtois,	Leboe,	Tremblay,
Flemming,	Lind,	Valade,
	Macdonald (*Rosedale*),	Wahn—(25).

Dorothy F. Ballantine,
Clerk of the Committee.

REPORTS TO THE HOUSE

WEDNESDAY, April 26, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-FIFTH REPORT

On Thursday, March 16, 1967, your Committee reported on Bill S-28, An Act to incorporate Anniversary Life Insurance Company.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues No. 54 and No. 56*) is tabled.

WEDNESDAY, April 26, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TWENTY-SIXTH REPORT

On Wednesday, March 22, 1967, your Committee reported the following bills:

Bill S-27, An Act to incorporate Laurier Life Insurance Company.

Bill S-41, An Act respecting La Société des Artisans.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues No. 55 and No. 56*) is tabled.

Respectfully submitted,
Herb Gray,
Chairman.

MINUTES OF PROCEEDINGS

(Reprinted from Issue No. 54)

THURSDAY, March 16, 1967.
(109)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:15 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Flemming, Gray, Irvine, Lambert, Latulippe, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*) (10).

Also present: Mr. Fairweather, M.P., sponsor of Bill S-28.

In attendance: Mr. Meredith Fleming, Q.C., Parliamentary Agent; Mr. R. Humphrys, Superintendent of Insurance; Dr. J. O. Lockhart, President and Mr. W. S. Major, General Manager, Anniversary Life Insurance Company.

The Committee proceeded to consideration of Bill S-28, An Act to incorporate Anniversary Life Insurance Company.

On the preamble

The sponsor of the Bill, Mr. Fairweather, introduced the Parliamentary Agent, Mr. Fleming, who in turn introduced the witnesses, Dr. Lockhart and Mr. Major. Mr. Fleming made a brief statement on the organization and aims of the proposed company.

In response to a question, Mr. Humphrys stated that his Department is satisfied with the application.

Messrs. Fleming, Humphrys and Major were questioned, and the preamble was carried.

Clauses 1 to 8 inclusive were carried.

The Title and the Bill were carried.

Ordered: That the Chairman report the Bill without amendment.

The Chairman thanked the witnesses, who were allowed to retire.

The Chairman explained to the Committee that, because of an error, the pages of the brief submitted by Mr. Latulippe had been reproduced in the wrong order when it was printed as Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence. The Committee agreed that, in fairness to Mr. Latulippe, this situation should be corrected.

Therefore, on motion of Mr. Monteith, seconded by Mr. Irvine.

Resolved—That the Committee cause to be printed the same number as originally printed of Issue No. 53, that is to say 1,500 copies in English and 700 copies in French, of Appendix AAA to Issue No. 53 of the Minutes of Proceedings and Evidence.

At 12:10 p.m. the Committee adjourned to the call of the Chair.

(Reprinted from Issue No. 55.)

TUESDAY, March 21, 1967.
(110)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Clermont, Gray, Irvine, Laflamme, Lambert, Leboe, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*)—(11).

Also present: Mr. Cameron (*High Park*), sponsor of Bill S-27; and Mr. Gendron, sponsor of Bill S-41.

In attendance: Mr. R. Humphrys, Superintendent of Insurance; *With respect to Bill S-41*: Mr. Luc Parent, Q.C.; the Honourable Senator Lefrançois. *With respect to Bill S-27*: Mr. V. R. E. Perry, Parliamentary Agent; Mr. E. E. Brooker, Comptroller, Laurier Life Insurance Company and Mr. R. Haddad, Comptroller, Laurier Life Insurance Company.

The Committee first proceeded to consideration of Bill S-41, An Act respecting La Société des Artisans.

On the preamble

The sponsor of the bill, Mr. Gendron, introduced the Parliamentary Agent, Mr. Parent, who made a brief statement.

At the request of the Chairman, Mr. Humphrys also made a brief statement.

Mr. Parent and Mr. Humphrys were questioned, and the preamble was carried.

Clauses 1 to 4 inclusive were carried.

The Title and the Bill were severally carried.

Ordered: That the Chairman report the Bill to the House without amendment.

The Committee then proceeded to consideration of Bill S-27, An Act to incorporate Laurier Life Insurance Company.

On the preamble

In the unavoidable absence of the sponsor of the Bill, Mr. Cameron (*High Park*), the Chairman introduced the Parliamentary Agent, Mr. Perry, who in turn introduced the witnesses, Messrs. Brooker and Haddad.

Mr. Perry and Mr. Humphrys were questioned.

The Preamble was carried, and clauses 1 to 10 inclusive were carried.

The Title and the Bill were carried.

Ordered: That the Chairman report the Bill to the House without amendment.

The Chairman thanked the witnesses who were permitted to withdraw.

At 11.40 a.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.